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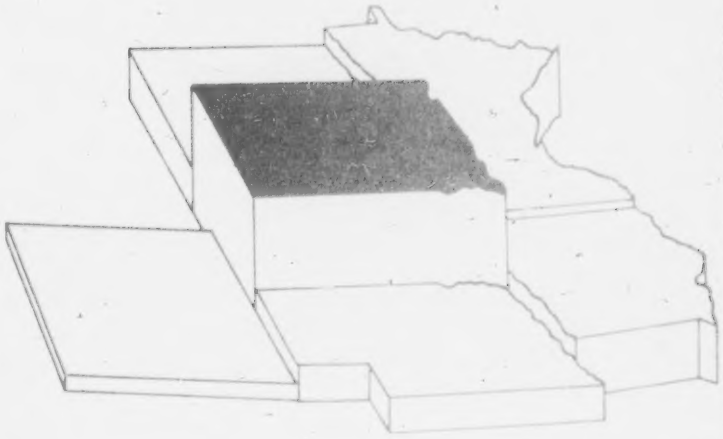

General Indicators	Latest Quarter	SOUTH DAKOTA Latest Quarter	Year Ago	Percent Change	UNITED STATES Latest Quarter	Year Ago	Percent Change
Personal Income ($ Mil.)	1986-2	8,630	8,041	7.3	3,479,582	3,298,856	5.5
Farm Prop. Income ($ Mil.)	1986-2	1,035	688	50.4	25,952	31,814	-18.0
Non-ag Employment (Thous.)	1986-3	282	280	0.8	100,245	97,897	2.4
Unemployment Rate (%)	1986-3	5.9	4.5	31.2	6.8	7.1	-4.2
Total Employment (Thous.)	1986-3	345	342	0.9	111,192	108,459	2.5

Note: All U.S. data seasonally adjusted except for the unemployment rate and total employment.
For South Dakota only personal income and farm proprietors' income are seasonally adjusted.

1985 PERSONAL INCOME

by
Jeff M. Peters

Introduction

This article presents personal income statistics recently obtained from the Bureau of Economic Analysis of the U.S. Department of Commerce. South Dakota personal income is compared with the Plains Region and the United States for the years 1976-1985. Also, the South Dakota personal income is separated by major source. The statistics in this report are based on data from August 1986.

Definitions

Personal income is defined as the income received by persons from all sources less personal contributions for social insurance. According to the regional and economic accounts, "persons" are defined as individuals, nonprofit institutions, private trust funds and private noninsured welfare funds.

The components of personal income are defined as follows:

1. Wage and Salary Disbursements: This includes monetary compensation for employees and corporate officers; tips, commissions, bonuses and any payments-in-kind that represent income to the recipient.
2. Other Labor Income: This component measures

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TREND OF BUSINESS

The United States Economy

Preliminary estimates for real gross national product (GNP) for the third quarter 1986 show a 2.4 percent annual rate of increase. Real GNP has averaged about a 2.5 percent growth rate since mid-1984. Retailers' sales rose 0.5 percent in November following October's drop. Sales of new cars have dropped since the last half of October, following strong third quarter sales. Department store sales recorded a 0.1 percent decline in November. However, consumer spending has shown growth during the last several quarters, mostly stimulated by auto financing incentives.

The inflation rate continues to remain relatively low. Estimates for the year are for the CPI to increase approximately 2 percent.

Total nonfarm employment rose approximately 3 percent in the third quarter of 1986. The unemployment rate for 1986 is expected to drop slightly from 7.2 percent in 1985 to 7 percent for this year.

South Dakota Economy

Total personal income in South Dakota rebounded in the second quarter of 1986 compared to the previous quarter due to government payments to farmers. Personal income on a seasonally adjusted basis increased 10.6 percent for this period. While nonfarm income increased over 1.0 percent.

Farm proprietors' income jumped 253.2 percent in the second quarter of 1986 compared to the first quarter of this year. Deficiency payments for feed and the acreage reduction program accounted for this sharp increase. Exclusion of these farm subsidies which amounted to $846 million, would have resulted in a decrease in farm earnings for this period.

The employment sector showed little to no growth in the third quarter of 1986 compared to the previous quarter. Nonfarm employment grew less than 1 percent for this period. Compared to a year ago, South Dakota's nonfarm economy rose by 1 percentage point. The outlook is for slow growth through 1987.

Construction employment declined slightly in the third quarter of 1986 compared to the previous quarter. Compared to a year ago construction employment was down approximately 400 jobs.

The unemployment rate for South Dakota increased nearly 5 percent in the third quarter of 1986, but was down over 13 percent from the year ago rate.

The sale of new cars continued strong into the third quarter of 1986 with a seasonally adjusted increase of 6.2 percent. New truck sales fell 15.3 percent.

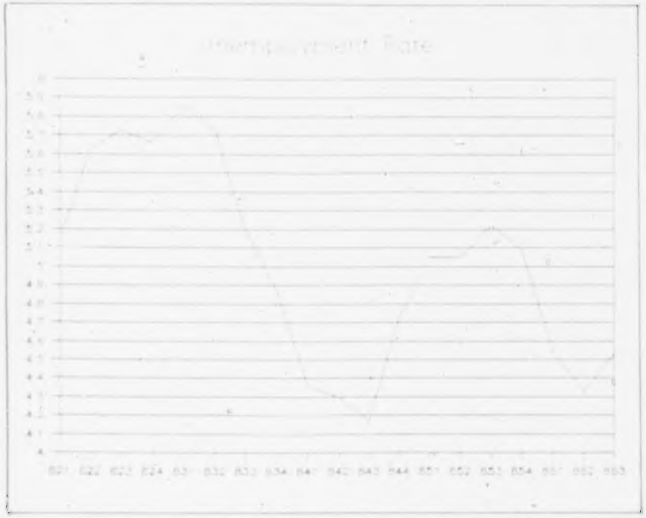
South Dakota Business Indexes
1985 – 1986
(Seasonally adjusted: 1982=100)

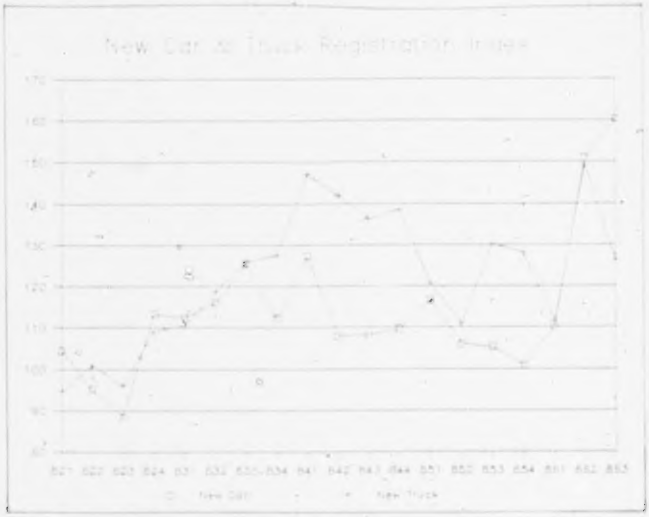
	1985				1986			
	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.		
Personal Income	104.3	104.7	105.4	107.4	114.5			
Farm Proprietorship Income	125.8	85.0	129.8	45.9	253.1			
Nonfarm Proprietorship Income	105.1	106.5	106.9	105.2	104.8	105.6		
Wage and Salary Disbursements	119.9	120.7	122.0	120.1	121.6	121.8		
Transfer Payments	5.1	5.2	5.0	4.5	4.2	4.5		
Employment	106.1	106.2	106.9	110.1	105.9	106.2		
Farm Workers	110.0	110.3	120.3	111.6	108.2	120.4		

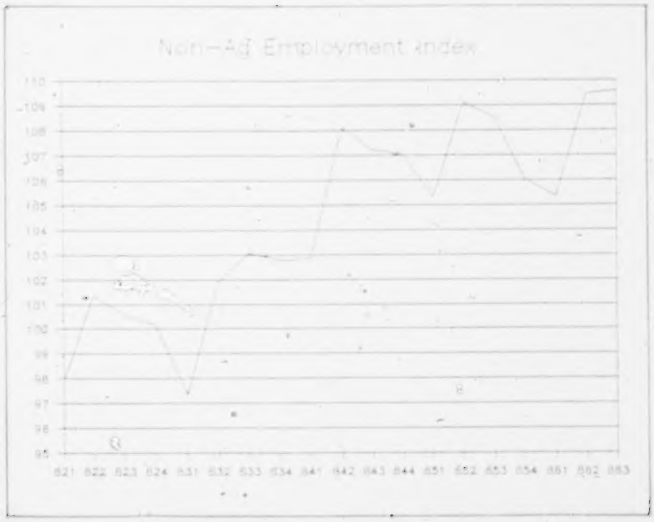
SOUTH DAKOTA BUSINESS & ECONOMIC INDICES

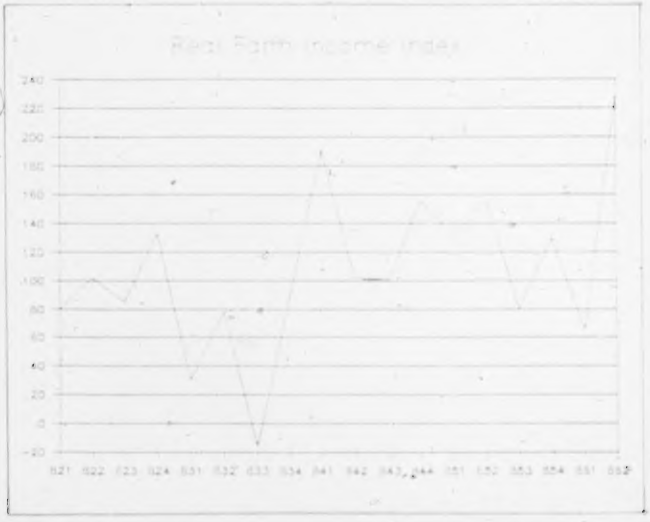
Quarterly Data 1982-1986

Adjusted for Seasonal Variation









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employer contributions to privately administered pension and welfare funds and several minor items such as directors' fees and compensation of prison inmates.

3. Proprietors' Income: This category consists of monetary income and income-in-kind of sole proprietorships, partnerships and tax-exempt cooperatives.

4. Personal Dividend Income: This measures the dividends received by persons from all sources.

5. Rental Income of Persons: This includes the monetary income of persons derived from the rental of real property.

6. Personal Interest Income: The interest income of persons from all sources is represented in this component.

7. Transfer Payments: This category measures the payments to persons who do not currently render their services in the U.S. economy.

The reader is advised that the figures currently reported will vary from previous reports because of updates in the information. In addition, individual values in the table may not sum to the totals reported due to rounding.

Table I shows the total personal income for each state in the Plains Region for the years 1976 through 1985. In 1985, total personal income in South Dakota was approximately 7.9 billion dollars. This was a 3.9 percent increase in total personal income between 1984 and 1985 while the United States had an increase of 6.3 percent in personal income over the same period.

In Table II, personal income is shown on a per capita basis for the states in the Plains Region. Per capita data is frequently used as a measure for comparisons among states rather than using total personal income. The data shows that South Dakota has experienced the lowest per capita personal income for the last ten years. In 1985, per capita income in South Dakota was 81 percent of the national average and 84 percent of the Plains Region average.

TABLE I
TOTAL PERSONAL INCOME BY STATES IN THE PLAINS REGION
(Millions of Dollars)
1976-1985

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
IOWA	18761	20927	24133	26464	27697	31364	31361	31572	35092	36315
KANSAS	15319	16809	18951	21686	23536	26718	28467	29495	31864	33755
MINNESOTA	26076	29530	32873	37066	40952	45162	47558	49919	55726	59068
MISSOURI	29868	33350	37678	42227	45692	50791	53555	56895	62302	66605
NEBRASKA	9848	10786	12373	13785	14520	16787	17430	17992	19916	21323
NORTH DAKOTA	3842	4044	4990	5467	5584	6696	7084	7388	7984	8255
SOUTH DAKOTA	3691	4233	4883	5556	5672	6414	6649	6795	7606	7903
PLAINS REGION	107406	119760	135881	152250	163653	183932	192105	200056	220541	233224
UNITED STATES	1446099	1601844	1806207	2026684	2252021	2512327	2660940	2833184	3101402	3310545

Source: Bureau of Economic Analysis, U.S. Department of Commerce.

TABLE II
PER CAPITA PERSONAL INCOME BY PLAINS STATES
(Dollars)
1976-1985

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
IOWA	6461	7181	8268	9073	9499	10748	10789	10872	12087	12594
KANSAS	6665	7287	8124	9239	9933	11189	11823	12155	13058	13725
MINNESOTA	8591	7420	8209	9179	10025	10582	11508	12043	13385	14087
MISSOURI	6192	6883	7735	8637	9281	10285	10837	11463	12469	13244
NEBRASKA	6358	6939	7927	8812	9231	10606	10966	11272	12412	13281
NORTH DAKOTA	5954	6230	7669	8383	8531	10130	10544	10846	11629	12052
SOUTH DAKOTA	5374	6144	7083	8064	8206	9274	9576	9726	10790	11161
PLAINS REGION	6369	7066	7980	8905	9508	10637	11076	11488	12600	13286
UNITED STATES	6647	7209	8133	9025	9910	10940	11470	12093	13114	13867

Source: Bureau of Economic Analysis, U.S. Department of Commerce.

Table III shows the percentage change in total and per capita personal income between 1976-1985 and 1984-1985. South Dakota personal income rose 114.1 percent between the years of 1976 and 1985. Over this same period, the Plains Region average percentage change was 117.1 percent and the United States average change in total personal income was 128.9 percent. The table indicates that between 1984 and 1985 South Dakota's growth in total personal income was below the average for the Plains Region. In per capita terms, South Dakota showed a 107.7 percent change over the ten year period while both the Plains Region and the United States experienced an average change of 108.6 percent. Between the years 1984 and 1985, per capita personal income in South Dakota increased only 3.4 percent.

In Table IV, South Dakota per capita personal income is reported in current and 1967 dollars for the years 1976 through 1985. Also, the percentage changes from the previous year are shown. Real per capita income is calculated by dividing the current per capita personal income by the Consumer Price Index then multiplying the result by 100. Between the years 1984 and 1985, per capita personal income in South Dakota rose 3.4 percent in current dollars while in real terms it dropped by .1 percent.

TABLE III
PERCENT CHANGES IN PER CAPITA AND TOTAL PERSONAL INCOME
PLAINS REGION

	% Change In Total Personal Income 1976/1985	% Change In Total Personal Income 1984/1985	% Change In Per Capita Personal Income 1976/1985	% Change In Per Capita Personal Income 1984/1985
IOWA	93.6%	3.5%	94.9%	4.2%
KANSAS	120.3%	5.9%	106.7%	5.5%
MINNESOTA	126.5%	6.0%	113.7%	5.2%
MISSOURI	123.0%	6.8%	113.9%	6.2%
NEBRASKA	116.5%	7.1%	108/9%	7.0%
NORTH DAKOTA	114.9%	3.4%	102.4%	3.6%
SOUTH DAKOTA	114.1%	3.9%	107.2%	3.4%
PLAINS REGION	117.1%	5.8%	108.6%	5.4%
UNITED STATES	126.9%	6.7%	108.6%	5.7%

Source: Tables I and II

TABLE IV
PER CAPITA PERSONAL INCOME IN SOUTH DAKOTA
IN CURRENT AND 1967 DOLLARS
(1967=100)
(1976-1985)

YEAR	IN CURRENT DOLLARS	% CHANGE FROM PREVIOUS YEAR	In 1967 DOLLARS	% CHANGE FROM PREVIOUS YEAR
1976	5374	-1.6%	3152	-6.9%
1977	6144	14.3%	3385	7.4%
1978	7083	15.3%	3625	7.1%
1979	8064	13.9%	3709	2.3%
1980	8006	-.8%	3325	-10.4%
1981	9274	15.8%	3405	2.4%
1982	9576	3.3%	3317	-2.7%
1983	9726	1.6%	3259	-1.8%
1984	10790	10.9%	3468	6.4%
1985	11161	3.4%	3464	-0.1%

Table V presents total disposable personal income for the states in the Plains Region. Disposable income is defined as the income available to persons for saving and spending. In 1985, South Dakota total disposable personal income rose by 4 percent over 1984 while the Plains Region rose by 5 percent over the same time period.

Table VI shows per capita disposable personal income for the Plains Region. In 1985, South Dakota per capita disposable income rose by 3.5 percent over 1984, an increase of 347 dollars. During the same period the Plains Region rose by 4.8 percent and the national average rose by 5.1 percent.

TABLE V
TOTAL DISPOSABLE INCOME FOR THE PLAINS STATES
(Millions of Dollars)
1976-1985

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
IOWA	15901	17778	20620	22405	23263	26343	26407	26831	30436	31196
KANSAS	13267	14508	16257	18404	19853	22282	23743	24936	27242	28641
MINNESOTA	22089	24979	27639	30866	34218	37519	39522	41648	47032	49657
MISSOURI	25787	28797	32423	36149	39090	43207	45126	48864	53714	56967
NEBRASKA	8542	9201	10634	11724	12308	14357	14556	15445	17392	18643
NORTH DAKOTA	3347	3541	4359	4794	4796	5617	6154	6449	7158	7349
SOUTH DAKOTA	3297	3834	4406	5015	5053	5720	5878	6085	6837	7114
PLAINS REGION	92230	102640	116339	129357	138580	155046	161385	170258	189811	199568
UNITED STATES	1247873	1374288	1545709	1722740	1912276	2119926	2252631	2423679	2662815	2825215

Source: Bureau of Economic Analysis, U.S. Department of Commerce.

TABLE VI
PER CAPITA DISPOSABLE INCOME FOR THE PLAINS REGION
(DOLLARS)
1976-1985

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
IOWA	5476	6100	7064	7681	7978	9027	9084	9239	10483	10819
KANSAS	5772	6259	6969	7840	8383	9331	9861	10276	11164	11688
MINNESOTA	5583	6276	6902	7644	8377	9123	9563	10048	11297	11843
MISSOURI	5346	5944	6656	7393	7940	8749	9131	9845	10741	11327
NEBRASKA	5515	5919	6813	7494	7821	9071	9157	9677	10839	11612
NORTH DAKOTA	5187	5455	6700	7351	7328	8498	9160	9468	10426	10730
SOUTH DAKOTA	4801	5565	6392	7279	7311	8271	8466	8710	9700	10047
PLAINS REGION	5469	6056	6832	7566	8062	8966	9304	9777	10844	11368
UNITED STATES	5736	6254	6960	7671	8415	9232	9710	10345	11259	11834

Source: Bureau of Economic Analysis, U.S. Department of Commerce.

Per capita disposable personal income as a percentage of per capita personal income is shown in Table VII. For the years 1976 through 1985, South Dakota maintained the highest percentage over any other state in the Plains Region. Further, South Dakota's percentage was higher than both the Plains Region average and the national average over the ten year period. This is an indication of the low tax rates on personal income in South Dakota.

continued on page 6

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TABLE VII
PER CAPITA DISPOSABLE PERSONAL INCOME AS A PERCENTAGE OF PER CAPITA PERSONAL INCOME
PLAINS STATES
1976-1985

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
IOWA	84.8%	84.9%	85.4%	84.7%	84.0%	84.0%	84.2%	85.0%	86.2%	85.9%
KANSAS	86.6%	85.9%	85.8%	84.9%	84.4%	83.4%	83.4%	84.5%	85.5%	84.8%
MINNESOTA	84.7%	84.6%	84.1%	83.3%	83.6%	83.1%	83.1%	83.4%	84.4%	84.1%
MISSOURI	86.3%	86.4%	86.1%	85.6%	85.6%	85.1%	84.3%	85.3%	86.1%	85.5%
NEBRASKA	86.7%	85.3%	85.9%	85.0%	84.7%	85.5%	83.5%	85.8%	87.3%	87.4%
NORTH DAKOTA	87.1%	87.6%	87.4%	87.7%	85.9%	83.9%	86.9%	87.3%	89.7%	89.0%
SOUTH DAKOTA	89.3%	90.6%	90.2%	90.3%	89.1%	89.2%	88.4%	89.6%	89.3%	90.0%
PLAINS REGION	85.9%	85.7%	85.6%	85.0%	84.7%	84.3%	84.0%	85.1%	86.1%	85.6%
UNITED STATES	86.3%	85.8%	85.6%	85.0%	84.9%	84.4%	84.7%	85.5%	85.9%	85.3%

Source: Compiled from Tables II and VI.

Personal income is further divided by origin. In Table VIII, the major sources of total personal income in South Dakota is shown for the years 1983, 1984, and 1985. Between 1983 and 1984, farm personal income grew by 151 percent. In 1985, it declined 5.7 percent from 1984. Nonfarm personal income grew 6 percent from 1983 to 1984 and 4.8 percent between 1984 and 1985. The nonfarm industries that showed the greatest growth between 1984 and 1985 are as follows: Finance, Insurance, and Real Estate (25.2 percent), Construction (19.7 percent), Transportation and Public Utilities (18.8 percent), and Services (18.1 percent).

Table IX shows the percentage distribution of personal income by industrial source. In 1983, Government and Governmental Enterprises comprised the largest source of personal income (20.6 percent). However, in 1984 and 1985, the Services industry represented the largest share of personal income (18.8 and 19.6 percent). Other large sources in 1985 were Government and Governmental Enterprises (18.9 percent), Farm (11.8 percent), and Retail Trade (11.1 percent).

TABLE VIII
SOUTH DAKOTA PERSONAL INCOME BY MAJOR SOURCES
(In Millions of Dollars)
(1983-1985)

	1983	1984	1985
INCOME BY PLACE OF RESIDENCE			
Total Personal Income	6795	7606	7903
Nonfarm	6530	6939	7275
Farm	265	666	628
DERIVATION OF TOTAL PERSONAL INCOME			
Total Earnings by Place of Work	4416	5164	5340
Less: Personal Contributions for Social Insurance	283	312	345
Plus: Adjustment for Residence	17	13	14
Equals: Net Earnings by Place of Residence	4150	4865	5009
Plus: Dividends, Interest, and Rent	1461	1503	1568
Plus: Transfer Payments	1184	1238	1327
EARNINGS BY PLACE OF WORK			
Wages and Salaries	3270	3502	3638
Other Labor Income	306	323	336
Proprietors Income	841	1339	1366
Farm	186	588	550
Nonfarm	655	751	816

Table VIII (continued)

	1983	1984	1985
EARNINGS BY INDUSTRY			
Farm	265	666	628
Nonfarm	4151	4497	4712
Private	3240	3538	3701
Agriculture Services, Forestry, Fisheries, and Other	49	45	43
Mining	81	87	86
Construction	249	288	298
Manufacturing	492	539	535
Nondurable Goods	253	247	243
Durable Goods	239	292	292
Transportation and Pub. Utilities	378	426	449
Wholesale Trade	323	347	348
Retail Trade	539	568	591
Building Materials and Farm Equip.	40	44	48
Gen. Merchandise Stores	43	47	50
Food Stores	80	85	87
Auto Dealers and Service Stations	114	123	125
Apparel and Accessory Stores	30	31	32
Furniture and Home Furn. Stores	35	32	33
Eating and Drinking Places	106	108	116
Miscellaneous Retail Stores	91	96	100
Finance, Insurance, and Real Est.	242	266	304
Banking and Credit Agencies	128	141	160
Other Fin., Ins., and Real Est.	115	125	144
Services	886	971	1046
Hotels and Other Lodging Places	28	30	32
Personal Services	57	59	62
Private Households	14	16	16
Business Services	89	95	108
Auto repair, Services & Garages	45	54	59
Misc. Repair Services	25	29	30
Amusement and Recreation Serv.	15	17	17
Motion Pictures	2	(D)	(D)
Health Services	392	418	447
Legal Services	45	54	62
Educational Services	39	41	42
Social Services	30	33	36
Museums, Botanical, Zoological Gardens	77	(D)	(D)
Membership Organizations	53	57	58
Misc. Services	59	68	74
Government and Govt. Enterprises	912	959	1011
Federal, Civilian	228	240	251
Military	131	136	139
State and Local	553	584	621

Source: Bureau of Economic Analysis, U.S. Department of Commerce.
(L) Less than $100,000
(D) Not Shown to Avoid Disclosure of Confidential Information
Note: Summing individual items may not equal totals due to rounding.

TABLE IX
PERCENTAGE DISTRIBUTION OF TOTAL PERSONAL INCOME
FROM INDUSTRIAL SOURCES IN SOUTH DAKOTA
(1983-1985)

	1983		1984		1985	
	AMOUNT	% OF TOTAL	AMOUNT	% OF TOTAL	AMOUNT	% OF TOTAL
TOTAL: WAGES AND SALARIES, LABOR AND PROPRIETORS INCOME	4416	100.0%	5164	100.0%	5340	100.0%
FARM	265	6.0%	666	12.9%	628	11.8%
AGRICULTURAL SERVICES FORESTRY, FISHERIES, AND OTHER	49	1.1%	45	0.9%	43	0.8%
MINING	81	1.8%	87	1.7%	86	1.6%
CONSTRUCTION	249	5.6%	288	5.6%	298	5.6%
MANUFACTURING	492	11.1%	539	10.4%	535	10.0%
TRANSPORTATION AND PUB. UTILITIES	378	8.6%	426	8.2%	449	8.4%
WHOLESALE TRADE	323	7.3%	347	6.7%	348	6.5%
RETAIL TRADE	540	12.2%	568	11.0%	591	11.1%
FINANCE, INSURANCE, AND REAL ESTA	242	5.5%	266	5.2%	304	5.7%
SERVICES	886	20.1%	971	18.8%	1046	19.6%
GOVERMENT AND GOVT. ENTERPRISES	912	20.6%	959	18.6%	1011	18.9%

Note: Summing individual items may not equal totals due to rounding.

A CASE OF MISSING REVENUE

Michael Berg

Over the past several years state governments, under the pressure of increased revenue needs, have become increasingly conscious of their revenue sources. South Dakota is no exception in searching for new sources of revenue, focusing most recently on collecting use tax on sales made to South Dakotans by out-of-state mail-order firms.

A use tax is paid on merchandise purchased outside the state and brought into the state. The rate is the same as the state sales tax rate. The U.S. Supreme Court has found in a variety of cases over the years that use taxes do not violate the Commerce Clause of the U.S. Constitution, which gives Congress the exclusive authority to regulate interstate commerce. They are not an undue interference with interstate commerce as long as they do not place a greater burden on interstate commerce than on intrastate activity and there is sufficient nexus or connection between the taxing state and the taxpayer.[1] However, in the landmark case *National Bellas Hess v. Illinois Department of Revenue*, the Supreme Court ruled that the state of Illinois could not force National Bellas Hess, a mail order company, to collect and remit taxes on sales it made in that state. The Supreme Court said that this constituted an "unjustifiable local entanglement" in interstate commerce and was therefore a violation of the Commerce Clause.

The Court ruled that since the mail-order firms' only contact with customers in the state was via U.S. mail or common carrier, and the company received no protection or benefits from the state, it was not within the state's jurisdiction.[2] In contrast, those mail-order firms that have an explicit nexus to the state (i.e., stores or offices, sales representatives, telephone numbers, or local advertising) are responsible for collecting and remitting sales tax to the state.

The Advisory Commission on Intergovernmental Relations has estimated that South Dakota lost between $3.5 million and $7.9 million in revenue in 1985, or roughly 1.8% to 4.0% of state sales tax revenues.[3] While not large as a percentage of sales tax collections, this amount is worthy of consideration in a state that relies heavily on the state sales tax.

Although mail-order sales are not a high legislative priority at either the state or federal level, legislation addressing the problem has been introduced in South Dakota and in the U.S. Congress. In the 1985 State Legislative Session, under HB 1348, Governor William Janklow proposed purchasing the names of South Dakota customers of out-of-state mail-order companies. At the federal level, Senator Mark Andrews of North Dakota has introduced a bill enabling states to collect use taxes on mail-order sales.[4]

Three groups have expressed concern over the problem. State retailers, who do collect and remit state sales taxes, claim mail-order firms are at an advantage in that customers buy from these firms to avoid paying taxes, thus taking business away from local retailers. State governments, in addition to viewing the present situation as a loss of revenue, feel the responsibility to protect businesses within their respective states. In addition, states stand to lose even more in the future: mail-order sales currently comprise 15% of all retail sales, but with changing American shopping habits, the figure could approach 20% by 1990. Mail-order firms, on the other hand, deny having an advantage, arguing that they help generate new sales, benefiting all retailers. They further argue it would be a nightmare to keep track of all the different tax rates in the governmental jurisdictions in which they do business (45 states, the District of Columbia, and some 6400 local governments).[5]

Several options are currently being discussed. One is for the states to purchase the names of customers of mail-order companies, as South Dakota is considering. Another

continued on page 8

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continued from page 7

is an amendment to the Interstate Commerce Act allowing states to require mail-order firms to collect and remit the tax.[6] A third, and perhaps the most generally acceptable option, is to establish a uniform nationwide rate, such as 4%, that would apply to mail-order purchases in all states.

The issue of collecting use tax from mail-order firms is an interesting one to be sure. Although no immediate solution is in sight, the potential amount of money involved ensures continued future interest in the issue.

I would like to express my gratitude to Dr. Ray Ring and Dr. Jerry Johnson for their help in writing this article.

SOURCES

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State Tax Guide.

Supreme Court Reporter, October Term, 1966.

FOOTNOTES

[1] *State Tax Guide*, paragraph 60,030.

[2] *Supreme Court Reporter*, October Term, 1966.

[3] *Congressional Quarterly*, December 7, 1985, pp. 2571-2573.

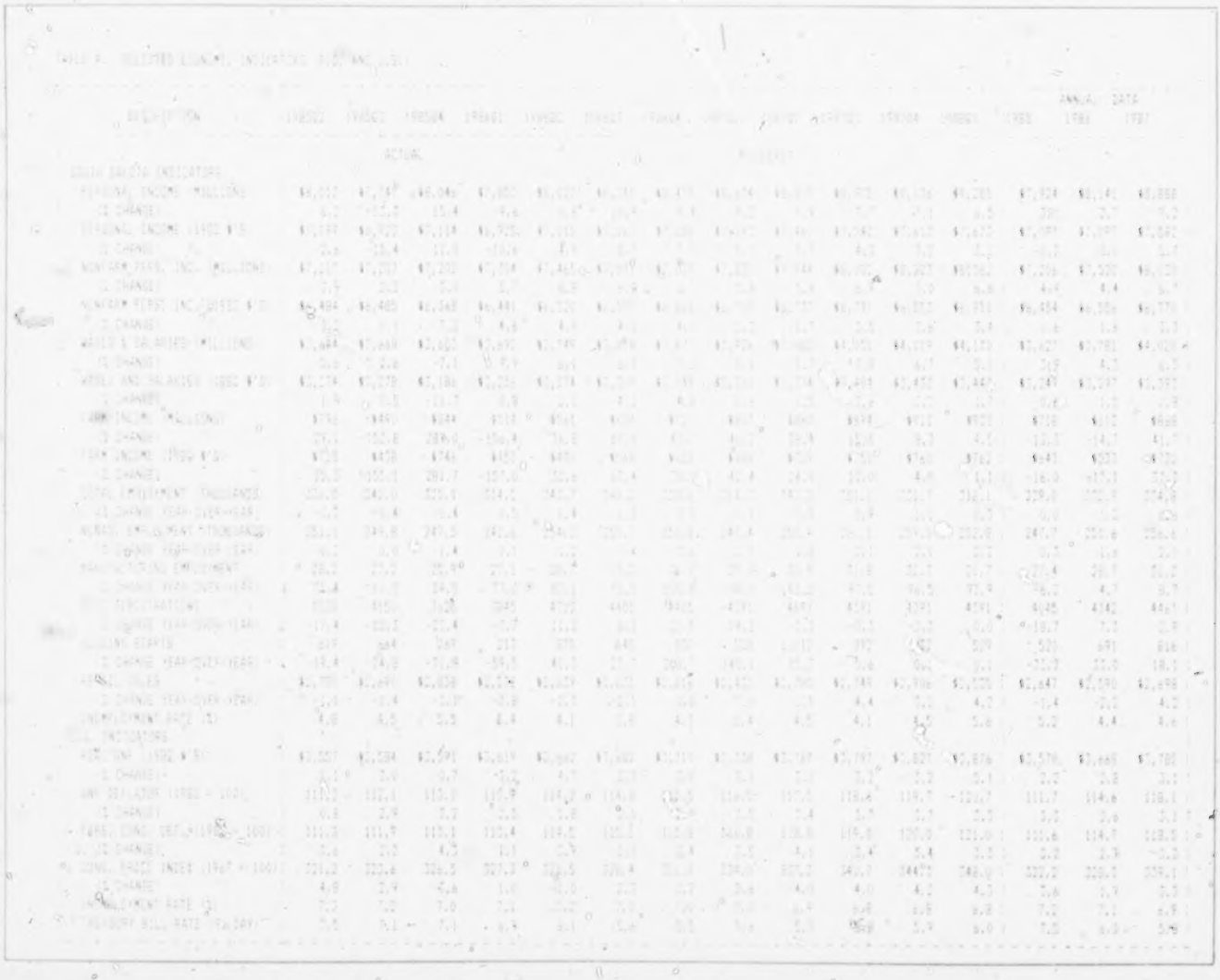
[4] Ibid.

[5] *Texas*, Office of the Comptroller of Public Accounts, September 1985.

[6] *Congressional Quarterly*, December 7, 1985, pp. 2571-2573.

SOUTH DAKOTA LABOR MARKET MODEL FORECAST HIGHLIGHTS

Ralph J. Brown



Taxable Sales
Counties and Selected Cities in South Dakota
July-Aug., 1995 and 1996
(In Thousands)

REGION I

	July-Aug. 1995	July-Aug. 1996	% Change
Brookings	10,676	11,214	5.0
Brookings	17,206	16,057	-7.0
Clear Lake	328	378	4.0
Volga	546	614	12.4
Clark	1,922	1,870	-2.7
Clear Lake	1,521	1,482	-2.6
Codington	25,661	25,818	0.6
Watertown	26,891	27,076	0.7
Deuel	2,324	2,586	9.3
Clear Lake	1,626	1,798	10.5
Garfield	218	257	15.0
Gary	376	207	4.6
Grant	4,750	4,985	5.0
Big Stone C	432	477	10.4
Milbank	5,764	5,978	3.6
Hamlin	2,174	2,102	-3.4
Bryant	498	511	2.6
Castlewood	264	243	4.6
Estelline	453	522	5.0
Hayti	594	605	2.3
Lake Norden	191	195	0.5
Hanson	1,206	1,241	2.9
Alexandria	1,000	1,000	0.0
Hanson	1,000	1,000	0.0
Kingsbury	3,515	3,618	2.9
Arlington	1,017	956	-6.1
De Smet	1,849	1,947	5.3
Lake Preston	582	605	3.9
Lake	7,051	7,109	0.8
Madison	7,071	7,109	0.5
Minn	1,552	1,500	-3.4
Howard	1,249	1,224	-2.0
Moody	3,785	4,140	10.0
Colman	2,065	2,415	16.9
Flandreau	1,505	1,561	3.7
Minn	25,511	25,748	0.9

REGION II

	July-Aug. 1995	July-Aug. 1996	% Change
Clay	7,208	7,258	0.7
Vermillion	8,430	8,817	4.6
Douglas	3,347	3,967	18.4
Burton	3,838	5,063	28.5
Lennox	1,018	1,141	12.0
Wilmot	1,090	1,099	8.5
Brookings	810	822	1.4
Sprinkton	551	527	-2.7
Salem	1,672	1,664	-0.5
Minnehaha	162,370	177,095	8.4
Baltic	552	542	-2.0
Belmond	1,248	1,248	0.0
Dutton	419	440	5.2
Dell Rapids	1,447	1,744	20.5
Garretson	654	725	10.7
Hartford	817	854	4.6
Sioux Falls	153,159	161,779	5.6
Turner	3,217	3,693	14.1
Union	1,672	1,744	4.3
Centerville	490	504	2.9
Marion	1,160	1,420	22.4
Parker	847	870	2.7
Tabor	4,150	4,307	3.8
Worthington	1,187	1,408	18.6
Bonhomme	1,080	1,122	4.2
Elk Point	780	777	-0.5
Union	10,170	10,709	5.3

REGION III

	July-Aug. 1995	July-Aug. 1996	% Change
Beadle	1,605	1,755	9.4
Clearwater	1,780	1,956	14.7
De Smet	5,084	5,062	13.5
Aurora	580	678	17.2
Davison	852	902	17.4
Hutchinson	832	940	20.5
Douglas	503	578	14.8
Emery	635	676	24.6
Kimball	935	1,018	2.2
Beadle	32,004	32,972	3.0
Miner	3,140	4,1006	0.9
Arlington	1,004	1,004	0.0
Gregory	1,000	1,020	2.0
Charles Mix	5,230	5,830	11.4
Lesterville	168	167	16.0
Davison	24,552	25,352	25.9
Mitchell	18,615	18,185	14.9
Miner	45,554	46,473	1.4
Watertown	42,000	41,805	2.6
Wessington	1,130	1,169	3.4
Bon Homme	4,011	4,181	4.1
Bridgewater	554	588	6.1
Gayville	108	114	5.8
Hartley	1,731	1,851	4.0
Tyndall	2,446	2,653	8.4
Douglas	1,000	1,000	0.0
Corsica	1,271	1,300	9.2
Davison	1,000	1,000	0.0
Mitchell	1,000	1,000	0.0
Hutchinson	1,000	1,000	0.0
Emery	1,000	1,000	0.0
Canton	1,000	1,000	0.0
Lincoln	1,000	1,000	0.0
Beresford	1,000	1,000	0.0
Lincoln	1,000	1,000	0.0
Lake Andes	720	810	11.7
Platte	2,409	2,295	-0.5
Wagner	1,707	1,919	25.4
Davison	25,435	26,547	5.4
Mitchell	20,063	21,905	8.9
Douglas	1,785	1,921	10.0
Armour	740	855	14.0
Corsica	716	808	9.6
Gregory	3,169	3,401	7.3
Burke	992	974	2.7
Gregory	1,534	1,727	5.3
Hanson	804	778	0.3
Alexandria	445	492	5.2
Canton	525	550	17.8
Centerville	1,045	1,047	2.5
Hurley	1,096	1,054	-3.7
Juronia	4,690	5,078	8.1
Scotland	2,011	2,011	7.4
Wilmot	755	1,138	1.8
Yankton	4,572	4,576	0.1
Roland	224	216	3.8
Redfield	3,066	3,079	1.0
Union	10,054	10,709	10.7
TOTAL	89,555	94,083	6.8

REGION IV

	July-Aug. 1995	July-Aug. 1996	% Change
Beadle	31,807	39,952	25.9
Huron	19,615	18,185	14.9
Miner	45,554	46,473	1.4
Watertown	42,000	41,805	2.6
Wessington	1,130	1,169	3.4
Bon Homme	4,011	4,181	4.1
Bridgewater	554	588	6.1
Gayville	108	114	5.8
Hartley	1,731	1,851	4.0
Tyndall	2,446	2,653	8.4
Douglas	1,000	1,000	0.0
Corsica	1,271	1,300	9.2
Davison	1,000	1,000	0.0
Mitchell	1,000	1,000	0.0
Hutchinson	1,000	1,000	0.0
Emery	1,000	1,000	0.0
Canton	1,000	1,000	0.0
Lincoln	1,000	1,000	0.0
Beresford	1,000	1,000	0.0
Lincoln	1,000	1,000	0.0
Lake Andes	720	810	11.7
Platte	2,409	2,295	-0.5
Wagner	1,707	1,919	25.4
Davison	25,435	26,547	5.4
Mitchell	20,063	21,905	8.9
Douglas	1,785	1,921	10.0
Armour	740	855	14.0
Corsica	716	808	9.6
Gregory	3,169	3,401	7.3
Burke	992	974	2.7
Gregory	1,534	1,727	5.3
Hanson	804	778	0.3
Alexandria	445	492	5.2
Canton	525	550	17.8
Centerville	1,045	1,047	2.5
Hurley	1,096	1,054	-3.7
Juronia	4,690	5,078	8.1
Scotland	2,011	2,011	7.4
Wilmot	755	1,138	1.8
Yankton	4,572	4,576	0.1
Roland	224	216	3.8
Redfield	3,066	3,079	1.0
TOTAL	86,745	91,143	5.1

REGION V

	July-Aug. 1995	July-Aug. 1996	% Change
Buffalo	46	42	34.8
Campbell	952	1,066	10.9
Corsica	547	552	0.5
Faulk	346	444	23.8
Hand	545	629	34.7
Hyde	178	168	6.4
Sanborn	160	208	30.1
Beadle	2,276	2,258	2.7
Eagle Butte	1,402	1,444	1.2
Isabel	207	227	9.1
Timber Lake	578	593	4.8
Hughes	1,563	2,000	19.5
Pierre	1,800	1,974	17.3
Sturgis	17,221	18,974	10.5
Union	546	552	5.4
Pierre	16,420	18,137	10.4
Ree	1,814	1,893	4.4
Highmore	1,760	1,768	0.0
Jones	2,530	2,706	3.4
Murdo	2,425	2,468	0.9
Lyman	2,815	2,680	4.1
Oacoma	1,251	1,394	11.0
Presho	774	758	2.8
Mellette	531	543	8.4
White River	450	477	15.9
Tripp	3,298	3,456	2.9
Colome	2,615	2,876	6.0
Winner	2,800	3,050	9.2
Gettysburg	2,111	2,284	8.1
Java	553	630	13.1
Stanley	2,832	2,978	6.0
Ft. Pierre	2,395	2,539	6.0
Dolly	1,215	1,239	2.2
Onida	1,017	1,041	2.4
Provo	5,761	6,247	8.4
Winner	5,610	56,072	8.2
Todd	1,533	1,633	2.5
Mission	1,336	1,396	4.5
Walworth	2,872	2,816	-2.5
Bobridge	4,556	4,760	4.0
Gatos	1,142	1,202	7.9
Presho	335	361	8.5
Burke	1,000	1,000	9.0
TOTAL	84,580	87,009	5.8

REGION VI

	July-Aug. 1995	July-Aug. 1996	% Change
Bennett	1,000	1,196	17.8
Custer	1,779	1,979	11.7
Fall River	2,967	3,219	8.5
Hot Springs	2,550	2,550	4.8
Oglala Lakota	5,550	5,805	4.6
Shannon	800	812	1.5
Custer	7,008	8,007	0.7
Edgemont	2,318	2,477	0.4
Fall River	7,648	8,006	6.2
Hermosa	800	900	12.5
Hot Springs	4,767	4,970	6.7
Harding	600	600	0.0
Bowman	1,000	1,000	0.0
Lemmon	21,000	22,000	0.7
Reeder	1,000	1,000	0.0
Meadow	1,000	1,000	0.0
Perkins	1,000	1,000	0.0
Lawrence	21,000	22,000	0.7
Deadwood	4,717	4,917	3.3
Lead	5,767	4,778	17.0
Spearfish	10,110	10,711	5.1
Whitewood	600	655	9.7
Meade	8,933	9,427	0.0
Sturgis	1,000	1,000	0.0
Union	1,000	1,000	0.0
Pennington	175,000	180,145	11.1
Rapid City	111,036	125,170	12.9
Wall	7,100	7,280	2.5
Custer	754	771	2.5
Pine Ridge	100	90	17.0
Wanblee	180	10	70.5
TOTAL	199,660	208,909	10.0
STATE TOTAL	662,187	706,172	6.6

For further information on sales tax data contact Nancy Nelson at the Business Research Bureau.

SOUTH DAKOTA INCOME AND EMPLOYMENT

TOTAL PERSONAL INCOME
United States, Plains Region and States
Second Quarter 1985-Second Quarter 1986
(Millions of Dollars, Seasonally Adjusted at Annual Rates)

	1985			1986		% Change
	2nd Qtr.	3rd Qtr.	4th Qtr.	1st Qtr.r	2nd Qtr.	2nd Qtr. 1985-2nd Qtr. 1986
United States	2,294,056	2,319,661	2,379,652	2,430,034	2,490,682	5.6
Plains States	234,939	237,896	236,206	236,255	240,551	5.8
Iowa	37,535	38,711	36,142	36,331	39,410	5.0
Kansas	53,620	53,680	54,478	55,915	55,979	6.4
Minnesota	59,341	59,026	59,767	60,302	62,766	5.8
Missouri	66,311	66,995	67,832	68,663	69,556	4.9
Nebraska	25,005	26,765	21,393	21,309	23,402	-6.4
North Dakota	8,006	8,033	8,627	7,926	8,987	12.2
South Dakota	8,041	7,776	7,967	7,813	8,630	7.3

Note: Detail may not add to totals because of rounding.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

SOUTH DAKOTA NONAGRICULTURAL WAGE AND SALARY EMPLOYMENT
Sept. 1985 and Sept. 1986
(In Thousands)

	Sept. 1985	Sept. 1986	% Change	Average Weekly Hours Sept. 1985	Average Weekly Hours Sept. 1986	Average Hourly Earnings Sept. 1985	Average Hourly Earnings Sept. 1986
Total Employment	249.7	252.6	1.3				
Mining	2.5	2.4	-4.0				
Construction	11.3	10.6	-6.2				
Manufacturing	25.3	29.4	16.2	40.40	45.10	$7.40	$7.73
Durable Goods	14.7	16.3	10.9	41.70	45.00	$7.40	$7.41
Fabricated Metals & Mach.	8.7	10.0	14.9				
Nondurable Goods	10.6	13.1	23.6	38.40	45.20	$7.40	$8.16
Food & Kindred Products	5.0	7.6	52.0				
Paper, Printing & Publishing	2.8	2.9	3.6				
Transportation & Pub. Utilities	12.9	12.7	-1.6				
Transportation	7.6	7.7	1.3				
Communication	3.0	2.8	-6.7				
Electric/Gas/Sanitary Services	2.3	2.2	-4.3				
Wholesale & Retail Trade	66.9	67.2	0.4				
Wholesale Trade	16.1	16.1	0.0				
Durable Goods	7.2	7.2	0.0				
Nondurable Goods	8.7	8.8	1.1				
Retail Trade	50.9	51.1	0.4				
Finance, Insurance & Real Estate	13.9	14.1	1.4				
Services	59.5	60.6	1.8				
Hotels, Amusm., Pers. & Business	16.4	16.6	1.2				
Medical & Health	22.8	23.4	2.6				
Educational, Membership & Social	16.9	17.2	1.8				
Government	57.4	56.1	-2.3				
Federal	10.5	10.6	1.0				
State	16.0	14.6	-8.8				
State Education	7.4	6.1	-17.6				
Local	30.9	30.8	-0.3				
Local Education	16.8	16.8	0.0				

Source: South Dakota Department of Labor

For further information contact Nancy Nelson

SOUTH DAKOTA AGRICULTURAL INDICATORS

SOUTH DAKOTA CROP PRODUCTION
Summary, 1985 and 1986
(As of Nov. 1, 1986)
(000's bushels)

	Production	
	1985	1986
Corn, grain	252,000	252,000
Sorghum, grain	15,000	10,500
Oats	29,520	42,000
Barley	7,400	11,200
Soybeans	43,680	40,200
Flaxseed	1,998	1/
Durum wheat	2,635	1,054
Other Spring wheat	64,500	91,263
Sunflowers 2/	409,920	435,000
All Hay 3/	4,030	6,900

1/ Planned production forecast to discontinued.
2/ Yield in pounds. Production is in 1,000 pounds.
3/ Yield and production in tons.

SOUTH DAKOTA FARMING AND RANCHING CONDITIONS
Jan. 1986 and Sept. 1986

Item	Unit	Jan. 1986	Sept. 1986	Sept. 1985	Jan. 1986 Index as a % of Sept. 1985	Sept. 1986 Index as a % of Jan. 1986
Farmers and ranchers	No.	90	91	93	101	101.1
Land	Ac.	91	91	97	101	42.8
Land	Ac.	91	91	97	101	4.3
Land, ex.	Ac.	91	91	1,211	101	4.4
Land, irrig.	Ac.	91	91	2,39	101	77.4
Land, irrig.	Ac.	91	91	91	91	
Land	Ac.	91	91	91	91	
Cattle	No.	91	91	91	91	
Cattle	No.	91	91	91	91	
Cattle	No

SOUTH DAKOTA
Business Review

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CONSUMER PRICE INDEX
United States
Jan.-Sept. 1986
(1967=100)

Item	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	% Change Jan.-Sept.
All Items	320.4	322.5	323.1	324.1	325.2	325.9	326.3	326.8	327.5	2.2
Food & beverages	307.9	309.3	309.8	309.5	309.4	309.5	312.2	314.6	315.1	2.3
Food	315.8	316.8	317.4	316.1	317.0	317.1	320.1	322.9	323.2	2.4
Alcoholic beverages	237.5	239.2	239.6	239.5	239.4	240.1	240.4	240.1	240.4	1.2
Housing	356.8	358.5	359.0	359.0	359.5	361.2	361.5	362.4	363.7	1.9
Shelter	395.8	398.8	399.0	400.1	400.9	401.6	403.5	405.2	407.4	2.9
Rental costs	119.8	119.8	119.8	120.3	121.1	121.6	122.5	122.9	123.6	4.0
Homeowners' costs	116.3	117.0	117.3	118.1	118.9	119.6	119.4	119.9	120.7	3.4
Fuel & other utilities	394.6	396.3	396.5	391.8	382.5	393.0	389.4	389.5	388.3	-1.6
Fuel	484.7	476.3	467.6	459.5	460.6	477.0	469.2	469.0	467.2	-3.6
Fuel oil, coal & bottl. gas	606.3	591.3	569.9	510.7	496.0	486.6	458.4	447.5	455.5	-30.2
Gas (piped) & electricity	442.6	444.5	442.2	429.2	444.5	466.0	462.7	468.5	461.1	3.2
Other util. & pub. services	247.3	247.9	249.0	251.3	251.5	255.2	255.6	255.9	255.4	3.4
Household furn. & operation	130.8	130.9	130.8	130.6	130.9	250.5	250.3	250.5	251.0	1.1
Apparel & upkeep	204.3	204.1	206.3	207.1	206.4	204.5	207.2	207.9	212.1	2.5
Transportation	503.9	505.2	509.6	505.2	505.0	508.6	504.7	501.5	502.2	-0.7
Private transportation	317.2	317.2	320.1	296.3	297.0	299.0	296.5	293.0	295.7	-6.8
Public transportation	419.6	422.2	421.2	422.3	423.7	425.4	428.0	428.0	428.0	2.1
Medical care	410.3	412.1	414.3	416.3	419.7	422.0	426.0	427.8	429.7	5.1
Entertainment	270.6	271.3	271.7	272.1	272.8	273.4	274.4	274.7	275.8	4.7
Other goods and services	339.1	340.3	341.6	341.9	342.1	342.6	344.9	346.4	351.3	4.2

Consumer Price Index for all Urban Consumers

Source: Bureau of Labor Statistics, U.S. Dept. of Labor

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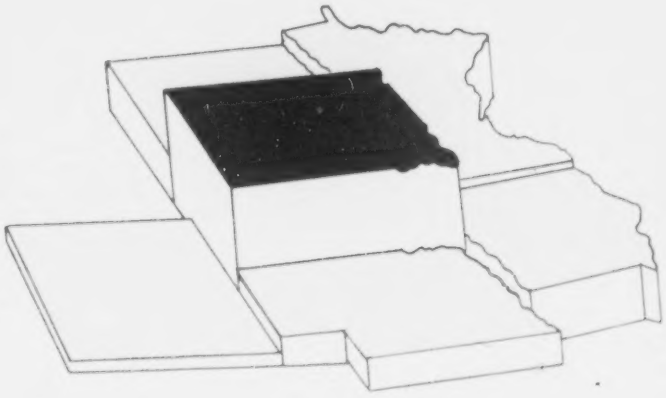

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		SOUTH DAKOTA			UNITED STATES		
General Indicators	Latest Quarter	Latest Quarter	Year Ago	Percent Change	Latest Quarter	Year Ago	Percent Change
Personal Income ($ Mil.)	1986-3	7,889	7,776	1.5	3,497,088	3,319,861	5.3
Farm Prop. Income ($ Mil.)	1986-3	257	356	-27.8	17,791	19,344	-8.0
Non-ag Employment (Thous.)	1986-4	254	248	2.4	101,062	98,668	2.4
Unemployment Rate (%)	1986-4	5.1	5.5	-7.3	6.5	6.7	-3.0
Total Employment (Thous.)	1986-4	331	325	1.8	110,732	108,257	2.3

Note: All U.S. data seasonally adjusted except for the unemployment rate and total employment. For South Dakota only personal income and farm proprietors' income are seasonally adjusted.

BED, BOARD, AND BOOZE TAXES IN SOUTH DAKOTA
An Evaluative Approach

Jeff M. Peters

Introduction

In 1983, the South Dakota State Legislature passed a law allowing municipalities to impose an additional tax on lodgings, prepared food, admissions, and alcoholic beverages. Since then, several South Dakota cities have instituted this tax which is commonly referred to as the Bed, Board, and Booze (BBB) tax.

This is a new tax source for most South Dakota local governments. Although it has been used for many years by cities in other states, very little has been written about the tax, and many questions about the tax remain unanswered. The purpose of this article is to give the reader some insight for evaluating such a taxing mechanism.

Definition

According to 10-52-8 of the South Dakota Codified laws, any incorporated city or town can impose an additional municipal tax of one percent upon the gross receipts on such items as hotels, motels, campsites, alcoholic beverages, eating and drinking establishments and ticket sales to

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TREND OF BUSINESS

United States Economy

The U.S. experienced moderate growth during 1986. Real gross national product—the market value of the output of goods and services produced by the U.S. economy—rose 2.5 percent during 1986. The unemployment rate fell to 6.9 percent in 1986—its lowest rate since 1980. Nonfarm employment rose 2.4 percent in the fourth quarter of 1986 compared to a year ago.

The inflation rate, as measured by the Consumer Price Index rose by only 1.9 percent for 1986 as compared to 3.6 percent in 1985. Nominal interest rates by year end were at their lowest levels since 1977.

U.S. personal income increased 0.5 percent in the third quarter of 1986, compared to the second quarter of 1986. Compared to a year ago, personal income rose slightly over 5 percent.

South Dakota Economy

As shown in the accompanying graph, South Dakota's personal income on a seasonally adjusted basis fell back to its first quarter level following a sharp increase in the second quarter of 1986. The decline in the third quarter of 1986 was due mainly to the drop in federal agricultural subsidy payments to farmers. The farm sector fell to a new low in the third quarter of 1986—down 30 percent from this period a year ago. There should be some improvement in the fourth quarter when farmers and ranchers sell their crops and livestock and receive government payments.

South Dakota's employment sector showed some growth in the fourth quarter of 1986 compared to the previous quarter. Nonfarm employment rose slightly compared to the previous quarter and was also up from year-ago levels. Construction employment rose nearly 2 percent in the fourth quarter of 1986, compared to the previous quarter, but was down 3 percent from a year ago. For the year 1986, construction employment was up 800 jobs. The unemployment rate rose 6.5 percent in the fourth quarter of 1986 compared to the third quarter, but was down nearly 10 percent from the fourth quarter 1985.

The sale of new trucks was strong in the fourth quarter of 1986, up 12 percent from the previous quarter. New car sales were down 25 percent on a seasonally adjusted basis for this same period. They were, however, ahead of last year's sales with a 14 percent gain.

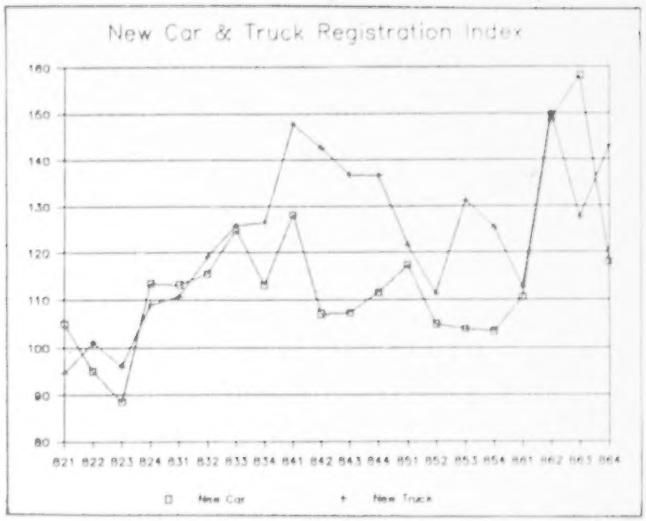
South Dakota Business Indices
1985 - 1986
Seasonally Adjusted (1982=100)

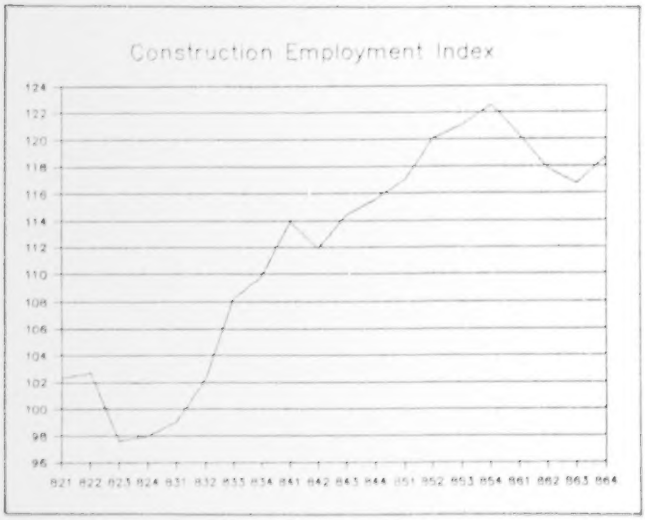
	1985		1986			
	3rd qtr	4th qtr	1st qtr	2nd qtr	3rd qtr	4th qtr
Personal Income	104.3	105.7	103.2	112.8	103.7	--
Farm Proprietors Income	80.0	129.8	65.0	203.4	56.6	--
Non-ag Employment	108.5	107.5	105.3	109.4	109.6	110.2
Construction Employment	121.1	122.5	120.3	117.8	116.7	118.7
Unemployment Rate (%)	5.3	5.4	4.6	4.4	4.6	4.9
New Cars	103.9	103.5	110.6	148.9	158.0	118.0
New Trucks	131.3	125.4	112.6	150.3	127.6	143.0

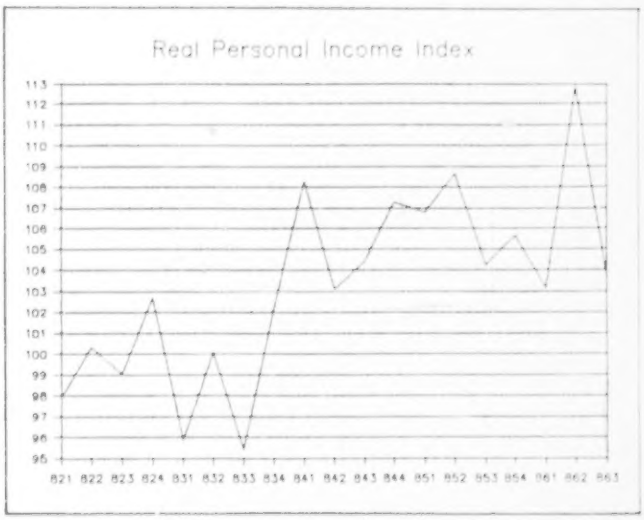
SOUTH DAKOTA BUSINESS & ECONOMIC INDICES

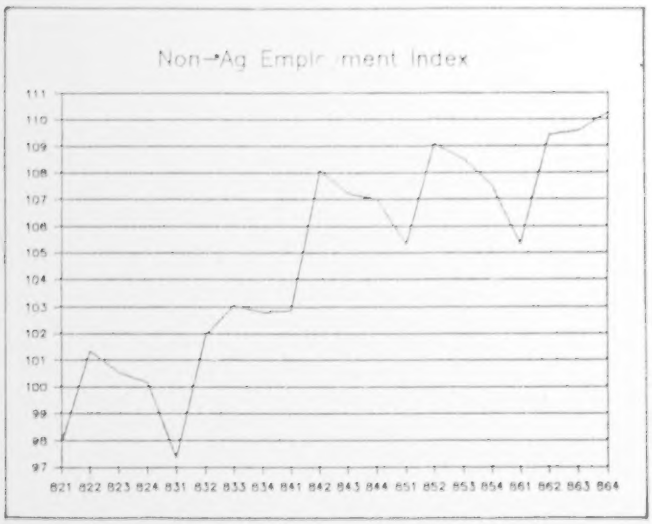
Quarterly Data 1982-1986

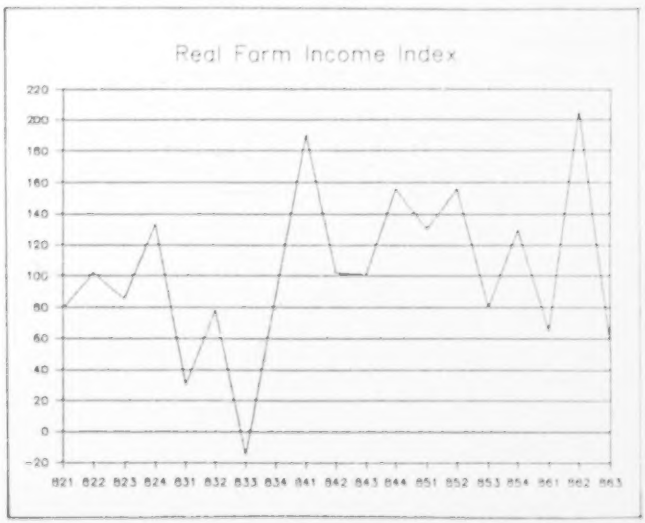
Adjusted for Seasonal Variation











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amusement places and athletic events. The receipts collected are earmarked for funding those specific purposes such as the building of a civic center or auditorium, economic development, or city promotion. This tax is added on the current level of sales tax in the municipality.[1]

Criteria

A number of standard criteria are usually considered in the evaluation of any tax:

1) Administration costs,
2) Compliance costs,
3) Tax adequacy,
4) Tax avoidance,
5) Tax sensitivity,
6) Tax exporting, and
7) Tax equity.

The following paragraphs discuss each of the criteria.

First, the costs of administration and compliance should be as low as possible. The direct costs to local governments for administering the Bed, Board, and Booze tax are very low since it is collected along with the sales tax by the South Dakota Department of Revenue. The Department then remits the revenue back to the originating municipality. Added cost to the Department is also quite low, since they are already collecting the state sales tax.

Compliance costs for the businesses affected are very small since they simply remit the BBB tax along with the sales tax to the state. For them, it is a simple matter of collecting and remitting another one percent. Consumer compliance costs are quite minimal also. When the tax is paid along with an existing transaction, little sacrifice is incurred. In comparison, compliance costs are quite high for income taxes on individuals and businesses. A host of different exemptions and deductions exist which increase the difficulty in computing income taxes.

Next, it must be determined whether the tax will provide adequate revenues for the purpose outlined. Here the Bed, Board, and Booze tax would seem valuable only in those cities where there is a considerable amount of sales in lodging and eating and drinking establishments. Stability in the particular industry would also be a consideration in determining tax adequacy. If BBB tax revenues fluctuate widely (e.g., because of year-to-year variations in tourist activity), the local government may not be able to consider a long term commitment to a project (e.g. civic center) since a downturn may necessitate use of other sources.

Tax avoidance always exists when a new tax is enacted. When a product or service is taxed, this usually raises the price for the consumer. The utility maximizing consumer may avoid the tax by finding a substitute for the taxed item. The BBB tax may promote such a behavioral pattern since it can be avoided quite easily by traveling to the next city. Since the tax currently states that any incorporated municipality may only raise a tax of one additional percent on the current sales and use tax, it is unlikely that traveling consumers will travel to an adjacent city in order to escape the tax since the additional cost may outweigh the additional benefit in tax savings.

Another very important consideration is the question: "Who bears the burden of the tax?" Whether the seller or the consumer pays the tax depends upon the price sensitivity of demand for the particular good or service. If the demand is relatively insensitive to price (i.e., the consumer has little choice but to pay a higher price), the seller can shift the tax to the consumer. If the demand is sensitive (e.g., the consumer can buy the product elsewhere or switch to an untaxed product), the seller must "absorb" the tax in order to remain competitive.

Most of the sales tax is probably shifted onto the consumer because the tax does not change the relative prices and wouldn't affect consumption patterns. The tax includes enough items that consumers have little opportunity to switch to untaxed items. By contrast the BBB is a narrow-based tax on a few types of spending. Nevertheless, addition of one percent Bed, Board, and Booze tax in South Dakota municipalities would probably be shifted on to purchasers of these particular goods and services for two reasons:

1) A one percent added tax is such a small fraction of the total cost for the product that sensitivity to the increase in price would be very low if any. It is unlikely that the consumers of those products would dramatically alter their consumption patterns.

2) The purchaser is actually "stuck" with the payment of the tax with little or no recourse. All the food and lodging establishments in the locality charge the tax. The consumer can't avoid the tax by driving across the street. Furthermore, a tax of only one percent would not warrant the action of driving to the next municipality that does not have such a tax, since the additional cost would outweigh the tax savings.

Tax exporting is another key consideration in determining the sufficiency of the Bed, Board, and Booze tax. Tax exporting is the extent in which the tax burden is placed on nonresidents. The BBB tax is a prime example of such a concept. Of those areas which have endorsed the tax, a large share of the economic activity in the areas of food and lodging is contributed by people who don't reside in the municipality. In many of these cities, the demand for the taxed product is very significant and insensitive to small price changes. The seller could then fully shift the tax onto the nonresident.

Another factor used to judge any tax system is the notion of tax equity. Tax equity refers to the fairness of the tax to the individual or entity paying the tax. The two primary equity criteria are (1) the benefit principle and (2) the ability to pay principle.

The benefit principle says: "taxes should be apportioned among the people in relation to the benefits they receive from publicly provided goods and services."[2] For example, the gasoline tax is used for the repair and maintenance of South Dakota highways. The users of the highway system pay at the gasoline pump for the benefits they receive from the highways.

The Bed, Board, and Booze tax does not adhere well to the benefit principle. The tax burden is mainly shifted onto nonresidents who realize litle if any of the benefits. If the city uses the tax money in order to support the building of a civic center, then it may be argued that the benefits test applies since nonresident businessmen may be a primary user of the facility. If the nonresident is a tourist, then the municipality may be taxing the "traveler" for future benefits which they are unlikely to enjoy. In addition, it is hard to say that city promotion is directly benefiting the taxpayer.

The benefit principle is also invoked (at least implicitly) when the question arises, "Why should the local government select only a few establishments to collect the tax?" A business which has to collect the tax may argue that they pay the tax, why shouldn't other businesses in the city share this cost of public support. If (as is argued above) the businesses which have to collect the tax are providing products which

are least likely to be price sensitive if only one percent is added onto the total cost of the product, then the tax is fully shifted onto the consumer. The result is no cost to the businesses collecting the tax. However, the effected businesses may still argue that compliance costs and the other inconveniences incurred by the tax may reduce their profit potential.

Assuming that the tax is fully shifted to the consumer is true, other businesses should not object to also collecting the additional tax. Having others (such as gift shops, grocery stores, and gasoline stations) also collect the tax, would increase the city's tax base, generating funds for economic development or city promotion (or permitting a lower tax rate). There seems to be no reason that the others shouldn't "jump on the bandwagon" unless the city government wants to specifically tax the "traveler" instead of the general consumer which would include the local citizen. This may help explain why the Bed, Board, and Booze tax passes with little if any opposition from the local residents. Local council members are probably most concerned about the burden on residents instead of "outsiders."

A very controversial principle of tax equity is the ability to pay principle. This principle says that people should support the public sector in accordance with their ability to pay taxes. Two concepts considered when applying the ability to pay principle are horizontal equity and vertical equity.

Horizontal equity is interpreted as "people with equal ability to pay should have an equal amount of tax liability." Under the BBB tax, people with equal incomes are treated equally if their consumption patterns are similar. However, many people who have the same income level spend their incomes in different ways. Some people travel, lodge, and dine out while others in the same income bracket do not. Those that do are taxed more than those that do not. Therefore, it seems as this type of tax cannot be argued as being horizontally equitable.

Vertical equity is interpreted as "people with higher ability to pay should have a higher tax liability than those who have a lower ability to pay." A common measure of vertical equity is tax liability as a percent of the individual's income. A tax is considered progressive if the tax liability as a percentage of income is higher for those who have a higher income. When the tax liability as a percentage of income is larger for people with lower incomes, then the tax is said to be regressive.

Studies performed in measuring the tax burden of sales taxes have led many scholars in the field to conclude that state sales taxes are regressive in relation to income levels.

> "Sales and excise taxes are clearly regressive throughout the entire income scale. In 1980 they began at almost 18 percent of income at the bottom and declined to less than 1 percent at the top, reflecting the fact that the proportion of family income spent on goods and service subject to tax falls as income rises."[3]

However, the question which remains to be answered is "Are Bed, Board, and Booze taxes regressive?" Since this tax has never been explored, it is difficult to say. However it seems likely that few people in the low income bracket (less than $10,000) or in the very high income bracket travel to South Dakota.[4] Given that the characteristics of this tax correspond to the state sales tax, the triple B tax can only be considered as mildly regressive in relation to income.

The purpose of this article was not intended to support or oppose the Bed, Board, and Booze tax. Rather, the objective was to point out some of the economic implications which do exist in this type of taxing method. Hopefully, this article will aid local policymakers who are considering to enact this tax.

1. South Dakota Codified Laws, Volume 4A, Sec. 10-52-8. (1986).

2. J. Richard Aronson, **Public Finance** (McGraw-Hill Book Company: New York, N.Y., 1985), p.306.

3. Joseph A. Pechman, **Who Paid The Taxes, 1966-85?** (Brookings Institution: Washington, D.C., 1985), p.55.

4. Nancy J. Nelson, **Out-Of-State Travelers in South Dakota 1985** (Business Research Bureau: University of South Dakota, Vermillion, S.D., 1985), p.36.

MEDICARE'S PROSPECTIVE PAYMENTS, DIAGNOSTICALLY RELATED GROUPS AND PROFESSIONAL REVIEW ORGANIZATIONS IN SOUTH DAKOTA

Randall M. Stuefen

The most dramatic financial change in the health care industry in the 1980's has been the implementation of the Prospective Payment System (PPS) for Diagnostically Related Groups (DRGs). This method of payment was initiated in October 1983 in the Medicare program and January of 1985 in the much smaller Medicaid program. The PPS in conjunction with the DRG is a cost containment system developed for the purpose of checking rising medical care costs in the two major federal health care programs. Discussion of the beginnings of Medicare is followed by an introduction to the concept of prospective payment based on Diagnostic Related Groups (DRGs) and a simple graphical representation of how payments to medical facilities by revenue source have responded in South Dakota since the late 1983 enactment of the system.[1]

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The rising use of Medicare and rising costs of Medicare have not always been the concern of the federal government. The medicare program was started in the mid 1960s and at first there was concern as to whether hospitals and physicians would participate. The medicare system was set up to put the fears of physicians and hospitals at rest. Services were paid on a retrospective, cost determined payment basis — nearly all of the services provided an elderly patient were paid by Medicare. There was no upper limit on services to be performed and the most complete or exhaustive care available was acceptable.[2]

Medical expenses increased in the 1970s and early 1980s at a rate sufficient for Congress to initiate a cost containment system. The cost of federal outlays for medical care in 1965, the first year of the Medicare/Medicaid program, was $3.6 billion. By 1982, the year before the enactment of the cost containment system, the cost of Medicare/Medicaid had risen to $67.8 billion and total federal health care outlays had ratcheted up to $83.7 billion. The 1982 increase over

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1981 was triple the general rate of inflation.[3] The federal government took great interest in the rapidly rising cost of medical care as the single largest pruchaser of health care service. Congressional concern focused on the escalating budget. The Congressional response to the issue took the form of Prospective Payment System (PPS), Diagnostically Related Groups (DRGs) and Professional Review Organizations (PROs).

The DRG system is a system that classifies hospital inpatient stays into 1 of 467 coherent and homogeneous groups. The government specifies the resource amount that it will pay for performing each DRG. The hospital is paid a predetermined federal rate for the DRG performed. The federal rates paid are a combination of national and regional census district medical billing rates. The hospital is allowed to lose or make money if more or fewer resources are used than are reimbursed for by the DRG. The patient cannot be charged if the hospital experiences a loss. 4

Consequently, the incentives and the homogeneity of the incentives have been altered by the adoption of the DRG system. Before, the physicians and the hospitals were both encouraged to provide the most complete care desired. Reimbursement for the costs of such care was assured. Now, the hospitals' are provided an incentive to limit costs. The fixed amount of payment for each DRG provides an incentive to limit testing and ancillary services to those necessary. The physician may still want to be as thorough and exhaustive as possible but the hospital now faces different incentives.[5]

The government is no longer an entity that pays for medical services. It is now an entity that purchases medical services. The change affects all aspects of providing medical care and has spawned much debate about quality of care and the current care delivery systems survival.

The PPS/DRG systems are price limitations on the provision of health care. Another dimension, one of regulation, is the role of health care reviewers known as Professional Review Organizations (PRO). There is one PRO in South Dakota. The PROs are responsible for determining the medical necessity, appropriateness and quality of care a patient receives. It is responsible for validating the DRG classification assigned to an illness. The PROs monitor hospital admission practices to determine the appropriateness of admitting patients to the hospital.[6]

A complex issue being briefly introduced, we can look at the bottom line to observe the initial effects of the DRG policy in South Dakota. The changes in medical facilities usage and revenues by source between 1981 and 1985, inclusive, are presented for review. The simple graphical analysis does not allow the differentiation of effects between the price effects of the DRG system and the regulatory effects of the PROs.

Industry observers indicate that South Dakota hospitals on average receive more cents on the dollar for performing a procedure under the DRG than was received previously under the old system.[7] This is possible because regional and national rates are blended with the hospital specific rate to establish the payment amount for each DRG. The regional and national influence in rate determination benefits most South Dakota hospitals because the state's hospitals are typically lower cost providers than those of the region or the nation.

The four year medical pricing goal PPS/DRG system is a federal rate. The federal rate is a blend of regionally and nationally determined charges. Hospital specific rates are excluded from the payment determination formula. The movement to the federal rates are being phased in over a period of four years in increments of 25 percent each. The apparent rapid response to the DRG system suggests that some part of the DRG system other than the payment or price provisions has been a major influence affecting health care revenues in South Dakota.[8]

One difference in response is the change in growth patterns for inpatient and outpatient care. The much larger "inpatient" gross revenues slowed to a halt in nominal terms in 1985 and declined in real terms in both 1984 and 1985 — -1.9 and -5.6 percent, respectively. Inpatient gross revenues are very influential in determining total performance comprising more than eighty-eight percent of total gross revenues for medical facilities in 1985.[9] See graph 1.

The gross revenues from "outpatient" care have continued to increase in both nominal and real dollars. The real dollar increases for outpatient care were 6.4, 19.3, 14.3, 5.7, and 19.7 percent for the years beginning in 1981 and ending 1985.[10] See graph 2.

Points of interest regarding the introduction of PPS/DRGs and effects on medical facility revenues include the questions: 1) Does the move from hospital specific rates to the federal rate increase or decrease the amount paid to South Dakota medical facilities for procedures performed? 2) Are admission changes since 1983 affecting total revenues? 3) Has the average length of stay changed? 4) Have the other purchasers of medical care been affected by the federal government's change from retrospective to prospective based payment systems.

Are South Dakota medical facilities winners or losers in the amount received under the DRG payment system? The neutrality provision of the new PPS/DRG system demands that total national payments not exceed the amount the federal government would have spent under the old system. However in the change to the new system, a state can in total win or lose — an individual hospital can win or lose. Industry observers suggest the vast majority of South Dakota hospitals have not been adversely affected on a payment per procedure basis. There is no data immediately available to quantify the change.

Admission changes resulting from PPS/DRG appear to have not only affected Medicare payments, but possibly system appears to have had a sympthetic effect that spread munity hospitals for nonmedicare and medicare patients has into other sectors of the industry. However, other forces were also at work during the 1980s. Major issuers in the insurance industry were in a period of transition from nearly full coverage policies with small deductibles to the initiation or expanded sale of major medical coverage of various forms.

A major issuer's payments to hospitals decreased one year prior to the PPS/DRG system's enactment. A representative of the company attributed the 1982 decline to policy coverage changes but thought the post 1982 decreases might have been a function of both coverage changes and PPS/DRG influences. Statistical modeling would be required to estimate the influence of each.

Year	Admissions Nonmedicare	Percentage Change	Admissions Medicare	Percentage Change
1982	76,892		44,409	
1983	74,475	-3.2%	46,855	5.5%
1984	72,609	-2.5%	44,981	-3.9%
1985	67,723	-6.4%	42,904	-4.6%

Source: South Dakota Department of Health

Splitting the admissions into nonmedicare and medicare groupings, there is no clear trend established that might distinguish the performance of one from the other. Both

groups had decreases in admissions in 1984 and 1985. It is interesting to note that prior to the first full year of the PPS/DRG implementation, the medicare admissions increased. A longer series of data would have been nice to see the bigger picture but was not available.

The total average length of stay in South Dakota community hospitals--nonmedicare plus medicare patients--has a varied history of increases and declines. The average length of stay in 1950 was 6.19 days. By 1960 the average had increased to 6.93 days and by the end of the 1960s it peaked at 7.78 days. The 1960s increase was not a smooth line of increases. A period of decline in the early to middle 1960s was followed by a relatively rapid rise. A fairly smooth decline in average length of stay occurred throughout the 70s starting at 7.00 days in 1970 and trailing off to 6.04 by 1979. The length of stay began to rise again in the early 1980s but that trend reversed in 1983. The average length of stay has declined each year since.[11]

Year	Ave. Length of Stay Nonmedicare	Percentage Change	Ave. Length of Stay Medicare	Percentage Change
1982	5.94		8.56	
1983	5.81	-2.2%	8.28	- 3.2%
1984	5.14	-6.4%	7.26	-12.1%
1985	4.93	-4.1%	6.75	- 7.0%

Source: South Dakota Department of Health

The statistics above show larger decreases in medicare average length of stay in 1984 and 1985 than in 1983. Medicare decreases are also greater than are nonmedicare declines. In fact, nonmedicare average length of stay increased in 1984. The possiblility of cost shifting in that year from decreased medicare revenues to nonmedicare revenue sources cannot be ruled out. Far more thorough analysis would be required to determine the possiblity of cost shifting. All in all, it is known that the average length of stay for all hospital patients in South Dakota reached a 25 year low in 1985.[12]

Overall, admissions and length of stay have decreased since 1982. The decrease can be attributed to insurance changes, PPS/DRGs, and likely other forces not identified. The insurance changes and a portion of the PPS/DRGs are price related influences. A second consideration of the PPS/DRG is a regulatory influence — that being the Professional Review Organization (PROs).

The PROs perform a regulatory function in that a sample of admissions are reviewed for the necessity, appropriateness and quality of care. The admissions and length of stay statistics appear to reflect immediate response to the PPS/DRG system. Caution has been suggested in attributing all impacts to PPS/DRGs. Nonetheless, the question of whether price (PPS/DRG) or regulation (PROs) is responsible for the impact on the two criteria. Recall, the price influence is being phased in over a four year period in 25% increments. On the other hand, the regulatory influence was immediate. It seems at least possible that the response observed to date may be primarily the result of the regulatory influence and secondarily a response to price.

If in fact the response observed to date is a reaction to the regulatory aspect of the system, the effectiveness of the system will be greatly influenced by how hospitals perceive the PRO and how effective the PRO is as a regulator. An industry observer noted that the PRO reviews have resulted in few problems being identified and consequently few actions taken. If only the perception of the PRO as a regulator has been the influence — a fear of what might happen — that perception and the system's effectiveness could change with experience.

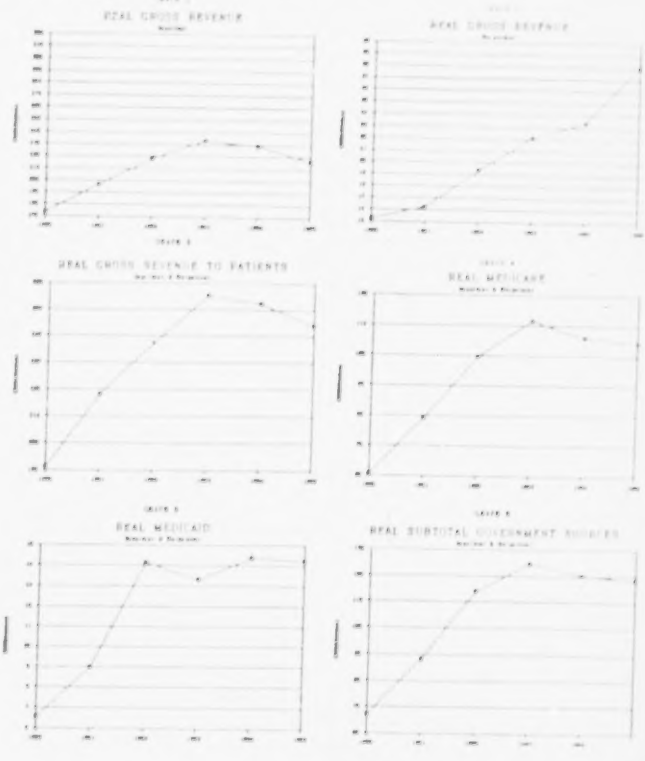
The hospitals as a group do not apear to have been adversely affected by the changes. Net income as a percent of total revenue has increased each year since 1982. Net revenues for community hospitals as a group have vacillated from year to year in the $10 to $14 million range but did increase from $14.8 million in 1984 to $23.8 million in 1985. That is about a 60% increase. Real income data is presented in the table below.

Year	Real Net Income (000)	Net Income As Percent Of Revenue
1980	$14,430	5.8%
1981	$12,334	4.9%
1982	$10,585	4.1%
1983	$14,761	6.8%
1984	$14,820	6.9%
1985	$23,721	10.8%

Source: South Dakota Medicare Facilities Data, 1986

The PPS/DRG system and PRO portion of that system are in place. It appears that hospital admissions and the length of stay have been constrained. The health of hospitals as measured by net revenues appears not to have been hurt — at least not through 1985.

Performance of inpatient and outpatient government revenues and revenues by program are presented in the graphs that follow. Recall that the Medicare PPS/DRG system was initiated in late 1983 with 1984 being the first full year of implementation. The first full year for Medicaid PPS/DRG was 1985.



Endnotes

[1]*DRG Glossary, Modern Healthcare*, February 15, 1984, p. 166.

[2]Unpublished data available from the Business Research Bureau, University of South Dakota, Vermillion, South Dakota.

[3]**Prospective Payment for Hospitals Under Medicare**, brochure from U.S. Department of Health and Human Services.

[4]*DRG Glossary*, **Modern Healthcare**, February 15, 1984, p. 166.

Continued on page 8

Continued from page 7

[5]Unpublished data available from the Business Research Bureau, University of South Dakota, Vermillion, South Dakota.

[6]*DRG Glossary*, **Modern Healthcare**, February 15, 1984, p. 169.

[7]Interview with Blue Cross Representative, March 24, 1987.

[8]*DRG Glossary*, **Modern Healthcare**, February 15, 1984, p. 169.

[9]Ibid.

[10]Ibid.

[11]Ibid.

[12]Ibid.

THE 1ST COMMANDMENT OF BUSINESS COMMUNICATIONS: BEING AUDIBLE

Charles Roegiers

What? I'm sorry I missed that! Say again, please! What did you say, I didn't hear you. My hearing is alright; you people just mumble and speak too softly.

How often have you heard these phrases? How often has an older friend, fellow worker or family member missed a point or two in a progressing conversation? How often have ***you*** been the person saying this or something similar to a friend, colleague, child, or spouse? According to the American Speech and Hearing Association, "In America today one out of ten people suffer from a serious communication handicap."[1] The problem is significant.

The very first day of every new semester I tell my business management students - the 1st Commandment of Communication is, to be audible. I say it loud enough for all to hear then I define what I mean and why this is important now and in their professional lives. Yes, the whole process of sender, message and receiver roles are all significant, but the focus here is on simply being heard. I think all too often one has little or no appreciation of the plight of the hard of hearing person. This is a lose, lose situation. I do not want my students to join this uneducated or ill-informed group. group.

My simple definition that first day goes like this: "Speak so that the person farthest from you can easily hear, all the others will likely have no problem." If this sounds a little familiar to you, its because of what Abraham Lincoln once said about people understanding your message to them. He said if you use smaller rather than larger words the least among you will understand and so will all the others. At any rate, the definition is simple and easy to understand. A good question here is, how does the speaker know if he's loud enough? Most people, once they sense the problem, can adjust their projection efforts. One could, if in doubt, also ask if there is anyone having trouble hearing. Likely, however, the troubled person will not admit to it even if they are experiencing difficulty. Perhaps the safest approach is to watch the reaction and attention interest of those farthest from you. The nonverbal signs of withdrawal, disinterest, and being fidgety are hard to miss if one is watching for such behaviors. Usually you can tell something is wrong.

The Problem:

Why is being audible so important? Why, you ask is this so critical and why doesn't everyone know it? The answers here are both quite simple, whether in a one-to-one conversation with an office mate or in a small group at lunch. The criticalness centers around the thought that, if what you have to say is important enough for you to want to say it, it must also be important enough to be said so that all present can hear it. If not, you are likely to be accused of talking to yourself. To the hard of hearing person, people are often seen as being engaged in a private conversation with one or two others and when they are excluded from what is said, they feel left out. This is not a fun feeling. Instantly, the person left out infers that their friends no longer want to include them in their exchange - the situation is bound to deteriorate quickly from here. Likely this exclusion is not purposeful at all; yet, the fact is that the person not hearing what is being said is thinking this in ***their*** mind. That makes it true to them. We believe to be true what we believe to be true. What we have here is a communication problem/breakdown, a lost message, perhaps hurt feelings. This is critical; therefore, the situation *is* significant.

The question about why people are often quiet and inaudible is also complicated. Some just say they are shy and naturally quiet. Others merely don't give it that much of a thought. If taken to an extreme, these people are frequently judged as being ***insensitive*** or ***unaware*** of their "rudeness." Judgments of others are easily and automatically made. We all do it and we do it all the time. The point to be stressed is that this perhaps incorrect judgment can damage a working relationship.

The Solution:

How should I behave so as to avoid this problem? My suggestion is to ***listen*** to yourself and observe others listening to you. Here's an example: if you introduce one person to another - say each name slowly and audibly - all parties will benefit and silently both will thank you and respect your courteous gesture. You will have facilitated an initial exchange and appeared professional in the endeavor.

If you have a problem hearing and/or remembering names when introduced, you will greatly appreciate the effort made by this sensitive introducer. The key here is to be aware of the importance of hearing that other person's name, especially the first time.

Another example: remember in a public meeting or maybe even at church where you could not hear the speaker? Recall how your interest dropped off to zero. If you have ever been given instructions or a job assignment and missed something that was said, remember how worried and frustrated you became and how you worried about the outcome of the project or request. Perhaps the sender, your boss, was then labeled insensitive by you or even worse, incompetent. You felt put upon or abused and the only real problem was that they did not communicate ***audibly*** to you. How easily we blame the other person.

Almost always these experiences need not have occurred. More specifically, we need only remember that simple rule - talk loudly enough so that the person farthest away from you, across the room or across the desk from you, can easily hear you, then all others will likely have no problem.

Just a short word about your older colleagues and/or those wearing hearing aids. As a person passes the thirty and

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About the author:
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TAXABLE SALES
Counties and Selected Cities in South Dakota
Jan.-Dec. 1985 and 1986
(in $000's)

REGION I

	Jan.-Dec. 1985	Jan.-Dec. 1986	% Change		Jan.-Dec. 1985	Jan.-Dec. 1986	% Change		Jan.-Dec. 1985	Jan.-Dec. 1986	% Change
Brookings	106,918	111,514	4.4	Deuel	3,864	3,962	2.5	Kingsbury	22,499	20,478	-9.0
Brookings	100,075	103,935	3.9	Toronto	3,958	3,962	0.1	Lellington	5,636	5,715	1.4
Clinton	2,151	2,167	1.7	Grant	38,581	41,008	6.4	De Smet	8,567	8,973	5.0
Volga	5,583	5,809	4.5	Big Stone C.	2,852	3,036	6.2	Lake Preston	3,354	2,820	-15.9
Clark	11,816	11,228	-1.8	Milbank	32,603	34,906	7.0	Lake	44,037	45,202	2.6
Clark	8,805	8,809	0.0	Hamlin	12,202	12,041	-1.3	Madison	40,856	41,905	2.5
Codington	158,538	161,152	1.6	Bryant	2,340	2,394	1.6	Miner	8,975	9,210	2.6
Watertown	153,852	156,212	1.5	Castlewood	3,256	3,390	5.1	Howard	7,029	7,024	-0.1
Deuel	14,886	14,971	0.6	Estelline	3,360	3,101	1.9	Moody	25,973	26,998	3.9
Clear Lake	10,663	10,865	1.5	Hazel	2,495	2,471	2.1	Colman	15,529	16,245	4.6
								Flandreau	9,581	9,757	1.8
								TOTAL	441,784	453,798	2.3

REGION II

	Jan.-Dec. 1985	Jan.-Dec. 1986	% Change		Jan.-Dec. 1985	Jan.-Dec. 1986	% Change		Jan.-Dec. 1985	Jan.-Dec. 1986	% Change
Clay	43,057	45,906	6.6	Minnehaha	925,482	987,646	6.5	Centerville	3,150	3,262	3.5
Vermillion	38,234	40,715	6.5	Baltic	2,097	2,084	-0.6	Marion	8,772	8,561	-2.1
Lincoln	31,023	34,512	11.2	Brandon	6,847	6,709	-2.0	Parker	5,355	5,891	2.6
Canton	12,200	15,340	25.7	Colton	2,581	2,670	3.4	Union	27,563	28,114	2.0
Lennox	6,915	6,994	0.0	Dell Rapids	9,158	9,717	6.1	Alcester	7,265	7,104	-2.2
McCook	17,035	16,781	-1.7	Garretson	4,077	4,442	9.4	Beresford	9,775	10,318	5.6
Bridgewater	2,371	2,490	5.0	Hartford	2,954	3,515	6.4	Elk Point	5,801	5,652	-2.6
Canistota	1,972	1,885	-4.4	Sioux Falls	871,261	927,523	6.5				
Salem	9,054	9,732	7.2	Turner	21,495	22,276	3.6	TOTAL	1,067,650	1,135,229	6.3

REGION III

	Jan.-Dec. 1985	Jan.-Dec. 1986	% Change		Jan.-Dec. 1985	Jan.-Dec. 1986	% Change		Jan.-Dec. 1985	Jan.-Dec. 1986	% Change
Aurora	10,884	10,542	-3.2	Lake Andes	4,431	4,731	7.7	Emery	1,918	1,684	-12.2
Plankinton	6,782	6,979	2.9	Platte	15,758	12,980	-5.8	Hutchinson	31,129	32,381	4.0
Bon Homme	20,941	22,125	5.7	Wagner	9,721	11,019	13.4	Freeman	11,589	12,319	6.3
Avon	4,163	4,172	0.2	Davison	125,946	131,890	4.4	Menno	4,499	4,810	6.9
Scotland	3,846	3,989	3.7	Mitchell	123,469	128,636	4.2	Parkston	10,234	10,371	1.4
Springfield	2,906	3,600	24.2	Douglas	10,791	10,941	5.5	Tripp	3,048	2,981	-2.2
Tabor	3,957	4,232	6.9	Armour	4,601	4,917	6.9	Jerauld	7,855	7,866	0.1
Tyndall	5,813	5,771	-0.6	Corsica	4,202	4,522	7.6	Wess. Springs	6,966	6,787	-2.6
Brule	25,785	25,822	0.1	Gregory	20,858	20,566	-2.5	Sanborn	5,528	5,057	-8.9
Chamberlain	20,776	20,645	-0.6	Burke	4,864	4,981	2.4	Woonsocket	3,973	3,750	-6.1
Kimball	4,424	4,523	2.4	Gregory	10,229	10,359	1.2	Yankton	106,754	115,079	8.2
Charles Mix	30,127	30,808	2.5	Hanson	4,977	4,959	-0.8	Yankton	102,422	111,098	8.5
Geddes	947	971	2.5	Alexandria	2,977	3,128	5.1				
								TOTAL	399,978	417,675	4.4

REGION IV

	Jan.-Dec. 1985	Jan.-Dec. 1986	% Change		Jan.-Dec. 1985	Jan.-Dec. 1986	% Change		Jan.-Dec. 1985	Jan.-Dec. 1986	% Change
Beadle	98,550	113,551	15.3	Bowdle	3,806	3,888	2.1	Lemla	2,001	2,132	6.5
Huron	92,613	106,276	14.7	Hosmer	1,662	1,485	-10.6	Mcpherson	14,810	14,845	0.2
Brown	245,422	254,756	3.8	Ipswich	7,231	7,024	-2.9	Britton	10,621	10,667	0.4
Aberdeen	230,589	238,675	3.5	Roscoe	2,106	2,250	6.2	Roberts	27,595	27,984	1.4
Groton	6,598	6,756	2.2	Faulk	8,284	8,429	2.1	Sisseton	16,915	16,851	-0.5
Day	27,067	27,530	1.4	Faulkton	5,510	5,911	7.3	Wilmot	5,518	5,561	1.2
Bristol	1,511	1,297	14.8	Hand	10,567	10,956	3.7	Summ	25,271	25,259	0.1
Waubay	1,432	1,443	1.0	Miller	16,755	16,155	3.5	Buland	1,165	1,005	-13.6
Webster	18,724	18,563	-0.9	Watterson	9,799	9,570	4.1	Redfield	21,435	20,977	-0.5
Edmunds	14,412	14,265	1.2	Eureka	7,514	6,855	-9.0				
								TOTAL	406,514	509,774	4.8

REGION V

	Jan.-Dec. 1985	Jan.-Dec. 1986	% Change		Jan.-Dec. 1985	Jan.-Dec. 1986	% Change		Jan.-Dec. 1985	Jan.-Dec. 1986	% Change
Buffalo	222	250	12.1	Blunt	2,894	2,792	-3.5	Stanley	12,451	13,426	7.8
Campbell	5,925	5,833	-1.2	Pierre	95,099	99,244	4.4	Ft. Pierre	12,298	11,265	7.8
Herreid	3,171	3,117	-1.7	Hyde	8,295	8,136	-0.8	Sully	6,418	5,851	-8.8
Pollock	2,50	2,204	-4.4	Highmore	8,021	7,976	-0.6	Ouida	5,477	5,103	-6.8
Corson	5,244	5,400	2.8	Jones	11,729	11,769	0.3	Tripp	34,228	35,679	4.2
McIntosh	1,033	928	-9.2	Murdo	10,920	10,853	-0.6	Winner	52,709	54,290	5.1
McLaughlin	1,146	1,204	12.0	Lyman	13,291	12,569	0.1	Todd	9,186	9,168	-0.2
Dewey	11,044	12,874	-1.5	Presh.	5,674	5,551	3.3	Mission	7,997	8,041	0.6
Eagle Butte	8,525	8,471	1.1	Mellette	2,904	3,066	5.6	Walworth	37,140	38,102	-2.7
Isabel	1,417	1,402	2.5	White River	2,474	2,747	11.0	Mobridge	27,928	26,984	-3.4
Timber Lake	2,216	2,155	-2.8	Perkins	19,192	18,543	-4.4	Selby	7,058	7,065	0.1
Haakon	11,709	11,400	0.0	Lemmon	14,991	14,550	4.4	Ziebach	2,081	2,051	-1.4
Philip	10,165	10,263	1.0	Potter	15,807	14,987	-5.2	Dupree	1,961	1,911	-2.5
Hughes	98,846	102,804	4.5	Gettysburg	11,153	10,795	-3.2				
				Hoven	3,477	3,571	2.7	TOTAL	306,961	310,556	1.2

REGION VI

	Jan.-Dec. 1985	Jan.-Dec. 1986	% Change		Jan.-Dec. 1985	Jan.-Dec. 1986	% Change		Jan.-Dec. 1985	Jan.-Dec. 1986	% Change
Bennett	10,659	10,585	-0.5	Harding	3,864	3,253	-15.8	Meade	45,108	47,654	5.6
Martin	10,487	10,374	-1.1	Buffalo	3,377	2,764	-18.2	Faith	5,189	5,111	-1.5
Butte	37,851	37,744	-0.3	Jackson	8,852	9,576	10.9	Sturgis	32,604	35,200	7.7
Belle Fche.	29,250	29,831	2.0	Kadoka	6,140	6,695	5.6	Pennington	624,250	683,241	9.5
Newell	5,251	5,240	0.2	Lawrence	100,216	104,938	4.7	Rapid City	556,879	614,053	10.3
Custer	27,858	27,594	-0.9	Deadwood	18,927	18,970	0.2	Wall	25,587	24,513	-4.2
Custer	26,217	25,912	-1.2	Lead	20,792	25,597	23.1	Shannon	4,275	4,153	-2.8
Fall River	27,351	27,514	0.6	Spearfish	44,791	48,181	7.6	Pine Ridge	657	581	-11.6
Edgemont	4,740	4,870	2.7	Whitewood	2,820	2,401	-14.9	Washabaugh	329	136	-58.7
Hot Sprgs.	21,270	21,506	1.1								
								TOTAL	890,171	956,189	7.4
								STATE TOTAL	5,594,867	5,783,198	5.2

For further information on sales tax data contact Nancy Nelson at the Business Research Bureau.

SOUTH DAKOTA INCOME AND EMPLOYMENT

TOTAL PERSONAL INCOME
United States, Plains Region and States
Third Quarter 1985 - Third Quarter 1986
(Millions of Dollars, Seasonally Adjusted at Annual Rates)

	1985		1986			% Change
	3rd Qtr.	4th Qtr.	1st Qtr.	2nd Qtr.	3rd Qtr.	3rd Qtr. 1985 3rd Qtr. 1986
United States	3,319,861	3,379,652	3,430,035	3,479,574	3,497,088	5.3
Plains States	231,896	236,206	236,944	246,445	240,526	3.7
Iowa	35,711	36,142	36,237	38,392	36,337	1.8
Kansas	33,680	34,478	34,229	35,212	34,957	3.8
Minnesota	59,026	59,767	60,651	62,841	62,093	5.2
Missouri	66,905	67,832	68,702	69,649	70,102	4.8
Nebraska	20,765	21,393	21,242	23,085	21,163	1.9
North Dakota	8,033	8,627	7,885	8,759	7,985	-0.6
South Dakota	7,776	7,967	7,797	8,507	7,889	1.5

Note: Detail may not add to totals because of rounding.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

SOUTH DAKOTA NONAGRICULTURAL WAGE AND SALARY EMPLOYMENT
Dec. 1985 and Dec. 1986
(In thousands)

				Average Weekly Hours		Average Hourly Earnings	
	Dec. 1985	Dec. 1986	% Change	Dec. 1985	Dec. 1986	Dec. 1985	Dec. 1986
Total Employment	247.1	251.5	1.8				
Mining	2.1	2.2	4.8				
Construction	8.7	8.9	2.3				
Manufacturing	27.3	28.8	5.5	42.8	42.0	$7.68	$8.06
Durable Goods	14.5	15.7	8.3	42.5	41.8	$7.35	$7.84
Fabricated Metals & Mach.	8.9	9.8	10.1				
Nondurable Goods	12.8	13.1	2.3	43.3	42.3	$8.08	$8.35
Food & Kindred Products	7.7	7.6	-1.3				
Paper, Printing & Publishing	2.8	2.9	3.6				
Transportation & Pub. Utilities	12.8	12.8	0.0				
Transportation	7.6	7.7	1.3				
Communication	2.9	2.8	-3.4				
Electric/Gas/Sanitary Services	2.3	2.2	-4.3				
Wholesale & Retail Trade	65.1	66.3	1.8				
Wholesale Trade	16.1	16.1	1.9				
Durable Goods	7.2	7.2	0.0				
Nondurable Goods	8.9	8.9	0.0				
Retail Trade	49.0	50.2	2.4				
Finance, Insurance & Real Estate	13.7	13.8	0.7				
Services	58.6	59.0	0.7				
Hotels, Amuse., Pers. & Business	14.8	15.1	2.0				
Medical & Health	22.9	23.5	2.6				
Educational, Membership & Social	17.6	17.3	-1.7				
Government	58.7	59.7	1.7				
Federal	10.4	10.8	3.8				
State	16.4	16.4	0.0				
State Education	8.1	8.1	0.0				
Local	32.0	32.5	1.6				
Local Education	18.8	19.1	1.6				

Source: South Dakota Department of Labor

For further information contact Nancy Nelson

SOUTH DAKOTA AGRICULTURAL INDICATORS

SOUTH DAKOTA CROP PRODUCTION
Summary, 1985 and 1986
(As of Jan. 1, 1987)
(000's Bushels)

	Production 1985	1986
Corn, grain	252,000	233,700
Sorghum, grain	15,000	14,030
Oats	79,520	46,200
Barley	32,400	35,910
Soybeans	40,640	41,230
Flaxseed	1,335	1,456
Durum Wheat	2,635	1,560
Other Spring Wheat	64,500	49,500
Sunflowers 1/	609,940	509,460
All Hay 2/	4,830	9,330

1/ Yield in pounds. Production is in 1,000 pounds.
2/ Yield and production in tons.

Source: South Dakota Crop & Livestock Reporter

PRICES RECEIVED BY FARMERS FOR COMMODITIES SOLD--SOUTH DAKOTA
Dec. 1985 and Dec. 1986

Commodity and Unit		Base Period Price 1910-1914 Average	Dec. 1985	Dec. 1986	Dec. 1986 Price as % of Base	Dec. 1986 Price Above or Below Dec. 1985
Wheat	Bu.	0.85	3.54	2.53	297	-28.5
Corn	Bu.	0.51	2.09	1.33	261	-36.4
Oats	Bu.	0.35	1.12	1.36	389	21.4
Barley	Bu.	0.59	1.87	1.25	212	-33.2
Flaxseed	Bu.	1.68	4.93	3.18	189	-35.5
Milk, Whsl.	Cwt.	1.82	1/	1/	-	-
Eggs	Doz.	0.196	1/	1/	-	-
Cattle	Cwt.	5.24	50.80	50.10	956	-1.4
Calves	Cwt.	6.08	61.40	68.60	1128	11.7
Hogs	Cwt.	7.07	43.80	50.60	718	15.5
Sheep	Cwt.	4.24	25.10	30.20	712	20.3
Lambs	Cwt.	5.66	63.10	75.30	1330	19.3
Wool	Lb.	0.170	0.56	0.60	337	7.1

1/ Season average price only.

Source: South Dakota Crop & Livestock Reporter.

SOUTH DAKOTA LOCAL CONDITIONS INDICATORS

SOUTH DAKOTA LOCAL CONDITIONS INDICATORS
(% Change Like Period Previous Yr.)

City	Total	Taxable Sales/1 Retail	Services	Telephone Services/2	Housing Starts/3	Postal Indicator/4	Employment*/2
Aberdeen	3.5	10.4	-11.7	1.5	1.1	19.3	6.0
Belle Fourche	2.0	6.1	-0.1	0.5	-46.7		4.9
Brookings	1.9	1.1	6.8		42.9	31.1	-1.8
Canton	25.7	10.0	15.6	0.8			-0.2
Chamberlain	-0.6	4.0	4.6	0.9	117.4		-3.6
Deadwood	0.2	-3.3	2.3	2.6	---		3.7
De Smet	5.0	-4.6	3.0				-2.0
Elk Point	-2.6	0.9	9.0	1.4			2.4
Hot Springs	1.1	22.3	15.4		---		3.8
Huron	14.7	-.2	108.3	2.0	237.5	19.4	2.7
Lead	23.1	-2.6	42.4	2.0			3.7
Madison	2.5	1.4	9.1	0.5	-81.7		-1.8
Milbank	7.0	-4.5	11.6	0.9	19.4	15.4	4.6
Mitchell	4.2	1.9	7.3	0.7	-27.9		4.0
Mobridge	-3.4	1.6	21.9	1.7			-4.7
Pierre	4.4	2.2	3.0	1.6	28.2	42.2	1.4
Rapid City	10.3	8.8	10.3	2.5	-33.6	17.8	7.7
Sioux Falls	6.3	4.0	-0.9	2.0	2.8	-16.8	3.7
Spearfish	7.6	7.6	16.2		-0.4		3.7
Sturgis	7.7	10.7	0.0	0.5			-5.7
Vermillion	6.5	11.7	-8.4	0.5	-86.0		0.9
Watertown	1.3	5.5	-9.8	0.2	-36.5	7.9	0.1
Winner	5.1	1.4	14.9	0.5			1.4
Yankton	8.5	2.1	11.4	0.1	127.3	29.9	2.5

*Based on County Data

1/Percentage change for Jan.-Dec. 1985 and 1986.

2/Percentage change for December 1985 and 1986. Telephone data are for the number of access lines in service.

3/Percentage change for January-December of 1985 and 1986. Data reported for housing represent the value of housing starts.

4/Percentage change for the fourth quarter of 1985 and 1986. Included in postal indicators are: postage stock sales, postage meters for customers, meter imprint postage (3rd class regular), and second class postage.

For further information contact Nancy Nelson

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SOUTH DAKOTA
Business Review

BUSINESS RESEARCH BUREAU
SCHOOL OF BUSINESS - USD
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VERMILLION, SOUTH DAKOTA 57069

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Continued from page 8

forty year mark, they will experience some loss of hearing. The most common type of hearing problem in older Americans is called presbycusis (just getting older). According to the Mayo Clinc, presbycusis typically begins between the ages of 40 and 50 and often progressively worsens.[2] The U.S. Department of Health, Education, and Welfare says that 11.5 million people have a partial hearing impairment which may be handicapping.[3] Many people with hearing losses refuse to admit this to themselves so they do not wear that needed aid. They, the intended receiver, miss what's being said and you, the sender, did not get your idea across so that it could be considered. This scenario is not easily corrected. Glasses are more socially acceptable than hearing aids. The analogy here speaks for itself. The hearing impairment we are all likely to experience is not likely to get better with time. Your colleagues deserve your best efforts at being understood. Some simple suggestions include: speaking clearly, don't shout but do listen to yourself and watch them listen to you; remove all objects from you mouth - gum, cigarettes, pipe, pencils, etc.; keep your hands away from your mouth since most people also speech read and need to see your words formed with their eyes; face the person directly and see that your face is well lighted - again, the need to see you clearly. And most important, if they do miss the message, be gracious enough to repeat yourself. Never, repeat never, say "oh, never mind."

Following the 1st Commandment of Business Communication, being audible, is not all that difficult. You now know what it is. Become a sensitive sender. Become aware of those trying to listen to you and become in everyone's perception a better, more effective communicator. Who knows, your example may be catching.

[1] **The ABC's of Speech Pathology and Audiology.** A Scriptographic Booklet, 1978.

[2] **Here are some tips on hearing loss; what causes it and what you can do about it.** Mayo Clinic Health Letter, Vol. 3, #4, April 1985.

[3] **Hearing Loss - Hope Through Research.** U.S. Department of Health, Education and Welfare. Page 3, 1976, Pub. - NIH 77-157.

CONSUMER PRICE INDEX
United States
Jan. - Dec. 1986
(1967=100)

Item	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	% Change
All Items	328.4	327.5	326.8	325.3	326.3	327.9	328.0	328.6	330.2	330.5	330.8	331.1	0.8
Food & beverages	307.9	309.3	307.8	308.5	309.4	309.5	312.2	314.6	315.1	315.6	316.4	317.0	3
Food	315.6	315.3	315.4	316.1	317.0	317.1	320.1	322.7	323.2	323.7	324.6	325.2	3
Alcoholic beverages	227.5	229.7	230.0	229.5	229.4	240.1	240.4	240.1	240.4	240.6	240.5	240.9	1.2
Housing	356.0	356.5	357.0	358.0	358.5	361.2	361.5	362.4	363.7	363.0	361.7	362.1	1.5
Shelter	395.0	394.8	397.0	400.1	400.9	401.6	403.5	405.2	407.6	409.5	410.2	410.6	4.2
Renters' costs	118.8	119.0	119.6	120.9	121.1	121.6	122.5	122.9	123.6	124.0	124.3	124.2	4.5
Homeowners' costs	116.7	117.0	117.9	118.7	118.9	119.0	119.4	119.9	120.7	121.3	121.5	121.6	4.2
Fuel & other utilities	394.6	390.0	385.5	381.8	382.5	391.8	389.4	389.5	388.3	379.1	371.1	371.0	(6.0)
Fuel	488.2	476.5	467.6	459.6	460.6	477.0	469.2	469.0	467.2	456.3	437.8	438.1	(9.6)
Fuel oil, coal & bttl. gas	650.3	591.2	549.9	518.3	496.8	486.6	459.4	447.3	453.5	451.9	452.0	460.6	(29.2)
Gas (piped) & electricity	442.6	444.5	442.3	439.2	444.6	466.0	462.3	464.5	461.1	441.4	426.7	425.2	(3.9)
Other util. & Pub. Services	247.5	247.9	249.0	251.5	251.5	255.2	255.6	255.9	255.6	257.1	255.4	254.9	3.1
Household furn. & operation	248.8	249.0	249.0	249.6	249.9	250.2	250.5	250.5	251.5	251.6	251.2	252.4	2.5
Apparel & upkeep	205.0	204.1	206.3	207.3	206.4	204.5	205.2	207.0	212.1	213.2	213.1	210.9	0
Transportation	323.9	319.2	309.6	303.3	305.7	308.6	304.7	301.3	302.2	302.6	304.3	304.0	(9.9)
Private transportation	317.1	312.2	302.1	295.3	297.8	300.8	296.5	292.8	293.7	294.1	295.8	295.9	(6.2)
Public transportation	419.6	422.2	421.2	422.2	423.7	425.4	420.0	420.0	420.5	420.7	421.7	427.5	4.3
Medical care	418.2	422.3	425.8	428.0	429.7	432.0	434.8	437.5	439.7	442.3	444.6	446.8	6.8
Entertainment	270.8	272.0	271.9	272.5	272.9	273.9	274.4	274.7	275.3	276.5	277.4	277.4	2.4
Other goods and services	339.1	340.3	341.1	341.8	342.1	342.6	344.9	346.4	353.3	354.6	358.9	355.2	4.7

*Consumer Price Index for all Urban Consumers

Source: Bureau of Labor Statistics, U.S. Dept. of Labor

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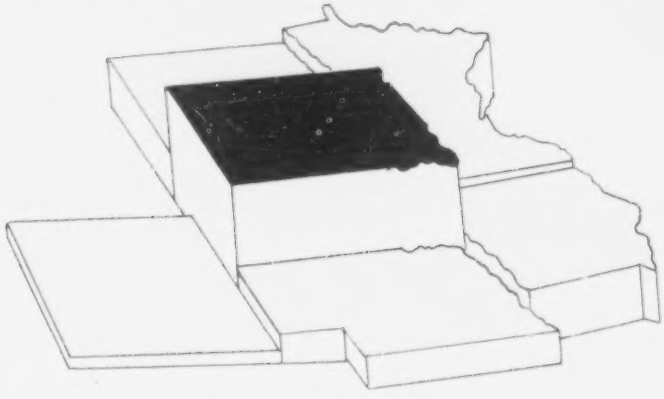

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General Indicators	Latest Quarter	SOUTH DAKOTA Latest Quarter	Year Ago	Percent Change	UNITED STATES Latest Quarter	Year Ago	Percent Change
Personal Income ($ Mil.)	1986-4	8,451	7,967	6.1	3,529,745	3,379,652	4.4
Farm Prop. Income ($ Mil.)	1986-4	752	584	28.8	22,698	26,728	-15.1
Non-ag Employment (Thous.)	1987-1	247	243	1.6	101,838	99,403	2.4
Unemployment Rate (%)	1987-1	4.9	6.0	-18.3	7.1	7.5	-5.3
Total Employment (Thous.)	1987-1	319	308	3.6	109,592	107,096	2.3

Note: All U.S. data seasonally adjusted except for the unemployment rate and total employment. For South Dakota only personal income and farm proprietors' income are seasonally adjusted.

THE BUSINESS RESEARCH BUREAU FIFTY YEARS 1937 TO 1987

Introduction

Ray Aldrich, the first Director of the Business Research Bureau, made the following statement about the Business Research Bureau at the time of its inception.

The bureau will offer the research services of the School of Business Administration to cover points and problems of advertising, salesmanship, accounting, store lighting and display, and business correspondence....It will also publish a monthly bulletin in which problems confronting businessmen of South Dakota will be discussed and in which successful business methods will be explained. In addition, the bureau will make detailed trade and industrial surveys of the state and will conduct institutes wherein competent speakers will give information of value to salespeople and executives. As an added service, the bureau will, whenever possible, have its research workers give their attention to problems which confront individual merchants.

From this point the Business Research Bureau had its beginning. The various directors have shaped the policies, plans and actions of the Business Research Bureau (BRB) throughout its history. The BRB is in a process of change today - the demands and personnel are different.

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Stephen L. Tracy is a graduate Research Assistant at the Business Research Bureau, School of Business, University of South Dakota, Vermillion, South Dakota.

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SOUTH DAKOTA BUSINESS REVIEW

June 1987 Vol.XLV, No.4

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TREND OF BUSINESS

South Dakota Economy

South Dakota's personal income jump in the fourth quarter of 1986 was due mainly to the sale of crops and livestock and government subsidy payments to farmers. For the year 1986, South Dakota's personal income rose 6.2 percent compared to 1985, nearly 1.0 percentage point above the U.S. gain of 5.3 percent.

Crop and livestock sales along with federal subsidies through the 1985 Farm Program boosted the fourth quarter seasonally adjusted farm proprietors' income 65 percent compared to the third quarter of 1986. For the same period, South Dakota's nonfarm income (total personal income less farm labor and proprietors' income) rose only 0.4 percent. For 1986, nonfarm income rose 4.3 percent compared to 1985.

Construction employment continues with favorable growth. Mild weather and work at Ellsworth Air Force Base have boosted this indicator with a 2.5 percent increase in the first quarter of 1987 compared to the fourth quarter of 1986. Nonfarm employment rose 1.5 percent in the first quarter of 1987 compared to a year ago, but fell slightly from the previous quarter on a seasonally adjusted basis. South Dakota's labor market model forecasts a 1.8 percent growth rate for 1987.

South Dakota's unemployment rate fell to 4.1 percent in the first quarter of 1987 compared to 5.0 percent in the previous quarter. It is estimated to remain around 4.0 percent for the year.

New car sales were strong in the first quarter of 1987 compared to the fourth quarter of 1986. On a seasonally adjusted basis, sales increased 14.3 percent for this period. Sales of new trucks fell 18.0 percent for the same period.

Comparisons of these economic indicators are included in the following table:

South Dakota Business Indices
1984-1985
Seasonally Adjusted (1982=100)

	1985			1986		1987
	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter
Personal Income	105.7	106.3	118.8	106.7	110.3	---
Farm Proprietors Income	129.8	117.5	306.3	99.6	164.4	---
Nonfarm Employment	107.5	105.8	108.4	109.6	110.2	107.4
Construction Employment	123.9	112.7	117.5	116.5	119.2	122.2
Unemployment Rate (%)	5.5	5.0	4.3	4.6	5.0	4.1
New Cars	103.9	113.1	149.8	157.0	118.3	135.2
New Trucks	122.6	117.6	147.6	176.7	139.5	114.4

United States Economy

Real Gross National Product (GNP adjusted for price changes) increased 4.8 percent in the first quarter of 1987. A slowdown in inventory accumulation during the second quarter of this year is expected to hold real GNP growth to about 0.7 percent over the first quarter.

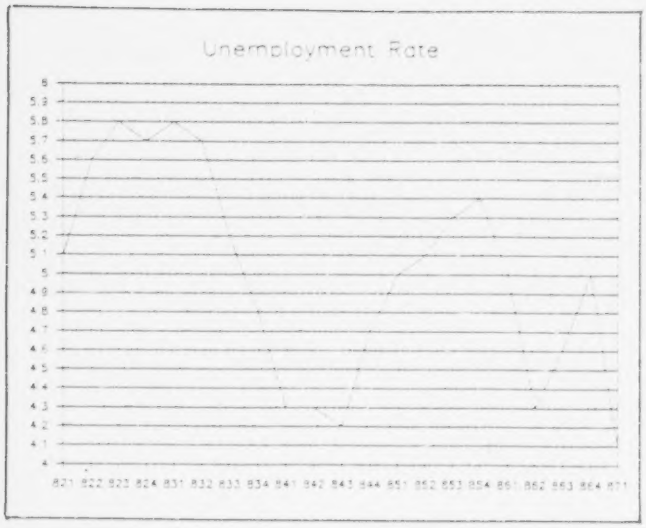
Personal income rose 0.9 percent in the fourth quarter of 1986 compared to the previous quarter. It is estimated to increase slightly more than 1.0 percent in the first quarter of

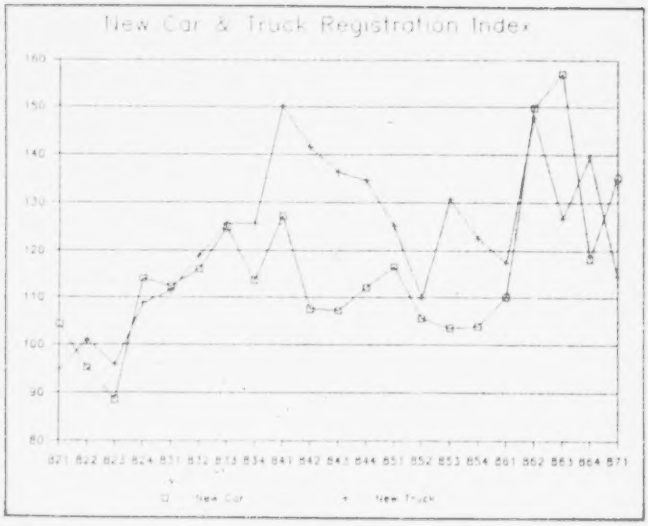
(cont. on page 12)

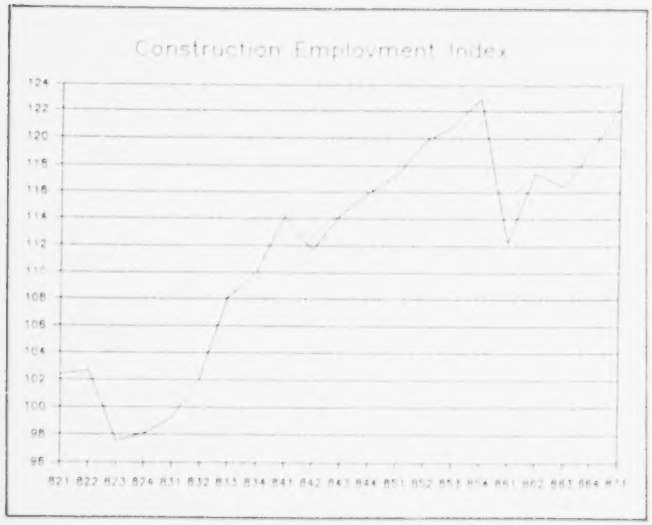
SOUTH DAKOTA BUSINESS & ECONOMIC INDICES

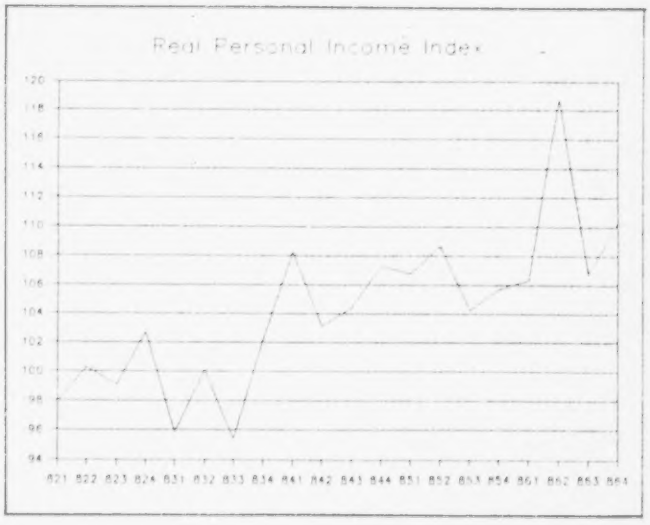
Quarterly Data 1982-1987

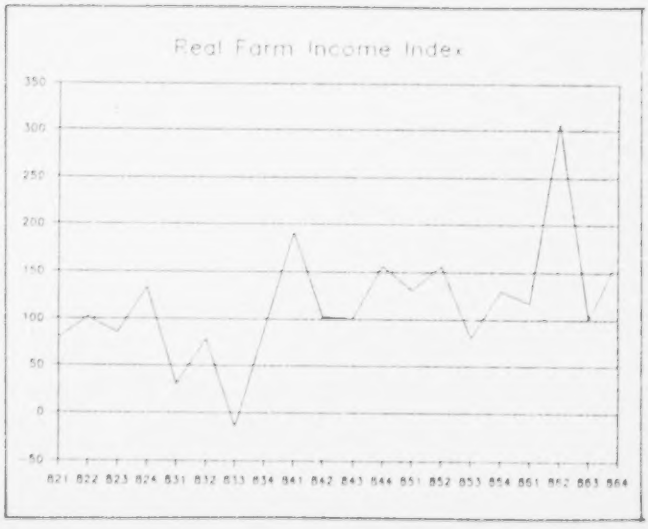
Adjusted for Seasonal Variation











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History Of The BRB

Dean Sparks established the BRB in 1937 appointing Ray Aldrich as the Director. The BRB was housed within the walls of the School of Business Administration located at the University of South Daktoa.

The BRB was created as part of the organizational framework of the School of Business. The policy as to the primary function of the BRB was stated as a fact-finding organization and to extend the facilities of the Business School to the businessmen operating in the state. This early objective set an extremely important pattern for the Business Research Bureau to follow because it meant that it would not become a propaganda agency nor serve as an instrument through which pressure groups could seek support for causes or be used as a vehicle for purely promotional enterprises.

Once the Bureau was opened it immediately began to generate the type and quality of documents and research set forth as one of the BRB's goals in the beginning. The BRB started to publish a monthly bulletin on the business conditions in South Dakota which evolved into the **South Dakota Business Review** in 1942. The **South Dakota Business Review** is still published today on a quarterly basis.

After Mr. Aldrich left in 1941, James W. Van Winkle, Professor Harry E. Olson, J. Don Book, and R. H. Noll served as directors at different times and for varied lengths of time. The next director to serve on a more permanent basis was V. E. Montgomery. Montgomery held the position of Director of the BRB from the fall of 1943 until 1976.

V. E. Montgomery noted in an article that the Bureau was never interested in building up an extensive permanent staff. As a result, from 1943 through at least 1962 BRB personnel consisted of a part-time Director, a part-time Research Associate, a full-time secretary and a part-time secretary. The BRB also employed the services of two or three part-time students to work as statistical clerks or draftsmen. Both the Director and Research Associate had teaching duties. The BRB was staffed on a full-time basis during the summer. During the summer the BRB staff was supplemented by one or two members of the regular teaching staff who would work for part of the summer.

V.E. Montgomery stated the BRB objectives in the **South Dakota Business Review** in August of 1962. Those objectives were as follows:

1. To publish the *South Dakota Business Review*, a summary of business and economic data reflecting business activity in South Dakota;
2. To publish of a series of special studies about a wide range of South Dakota business and economic topics;
3. To serve as a depository for a wealth of business and economic data in order to answer the many requests for information that are received from business and industrial interests in the state.

In 1977 J. W. Johnson took over as the Director of the BRB. He held this position until the fall of 1984. The BRB continued to adhere to the strict principles set forth during the foundation of the BRB. J. Johnson stated:

The way in which the objectives of the BRB are achieved is guided by the director of the BRB. This is neither good nor bad; it is just a matter of fact. The philosophy of the director is the source of the objectives.

In the fall of 1984 the BRB hired a new and different type of director. D. W. Lewis is not the type of director the Bureau had become accustomed to in the past. Lewis, who is not an instructor in the School of Business, came from within the BRB and is a graduate of USD. Prior to being the Director of the BRB Lewis held the position of Assistant Director. The changes which have taken place during Lewis's directorship have been many and are of a different nature than those proposed under previous directors. The expansion of the BRB to include the Business Assistance Programs (BAP) is one of the many organizational modifications since the change in directorship in 1984.

BRB AND THE BAP TODAY

Today the BRB is organized into four functionally different entities: research, data center, information processing, and training. Even though these entities are functionally different they all work toward the common goals of the BRB. Each department complements the others. Recently the Small Business Development Center, International Trade Center, and Procurement Technical Assistance Center were put under the guidance of Donald Greenfield, Director of the South Dakota SBDC. The growth of these programs has significantly increased the number of already used programs under the guidance of the BRB. The BRB is still actively involved in the operations and support of these programs.

Don W. Lewis, Director of the BRB, sees the objectives and strategy as follows:

1)To support the faculty and staff of the School of Business
2)To provide research to the State of South Dakota and its business community;
3)To provide computer assistance and technical support. To achieve this we deal on a personal basis with each of the objectives, develop contracts, and use the SDBC, Procurement and International Trade as a vehicle to market the BRB or make services known;
4)To provide publications with timely articles of interest which will benefit the South Dakota business community.

When you compare the current objectives of the BRB to those established at its creation you will find them to be closely aligned. The major difference is the way in which these objectives are achieved. The BRB takes a proactive and aggressive role in helping business today whereas its early position was more of a passive one. In a statement of what the BRB was prior to the separation of the BAP group the following was written:

The BRB is able to offer some unique and comprehensive services to both private and public sectors of the region's business and economic society. Through the use of vast resources, the Bureau is able to locate and collect economic data relevant to the business and economic conditions of the state, its regions and communities. The various divisions of the Business Research Bureau: the State Data Center, the Small Business Development Center, the Procurement Technical Assistance Center and the International Trade Center are able to offer applied research, generally in the form of surveys, as well as maintain data bases on a contractual basis to various organizations. The combination of services makes the Business Research Bureau an invaluable service to the business community.

It should be noted that even though the BRB and the BAP are no longer under one director, they work together as one in order to accomplish the objectives and goals of the BRB, BAP, and the School of Business.

Research Programs

The research programs and projects of the BRB are headed by Randall M. Stuefen. He is a two-time graduate of SDSU and was employed in state government for a period of time prior to coming to the BRB. R. M. Stuefen is the Associate Director of the BRB. The research group consists of R. M. Stuefen, the faculty, and the new graduate assistant program.

The graduate assistant program was initiated by the BRB to

overcome the problem of limited human resources. This year two graduate students were offered two-year assistantships. This program provides a reduction in tuition, similar to the regular assistantship program offered at the School of Business, and an hourly wage for work performed. The program yields invaluable experience for the graduate student and provides the BRB with a valuable asset for two years.

The research department has been involved in a variety of different projects over the last few years. The research department is and has been committed to an assortment of private research contracts as well as a number of state contracts. These range from a study on the feasibility of tuition reciprocity to an involvement with research for the state lottery. Many of the private sector research contracts involve a feasibility, impact, or image study of a particular business or industry.

TRAINING SERVICES

The BRB provides many types of training to varying groups which are usually developed for their specific need. One such program that is presently housed in the BRB is the training provided to the Indian Health Service (IHS). The IHS began in October 1979 in Allied Health as part of the Health Services Administration (HSAD). Dr. Richard L. Barta has been the Director since the inception of the program. The underlying purpose of the IHS is to establish a sufficient complement of well trained Tribal, Indian Community, and IHS employees in Management and Health Administration skills. It was set up for continuity rather than the scattering of workshops and seminars.

The program goals are to improve personal and professional growth, improve health care programs, and improve health care and services for the Aberdeen Area Indian population which includes North Dakota, South Dakota, Nebraska and Iowa. The success and effectiveness of this program has prompted officials to continue this program. The basic approach to this program is to offer practical and useful course work and activities, producing both immediate and long-term benefits while continuing to offer high-quality education. The program classes are offered at Black Hills Training Center, and students use the training center's eating and lodging facilities. Classes are held for three days every 5-6 weeks. This reduces the time away from work and family. Dr. Barta stated:

The unique part of the program is that all are full-time employees who can't leave employment for any extended time period. Using this method of delivery they can continue their education, taking advantage of the opportunities to reach the goals they so desire.

Now, in its seventh year the program is beginning its second year of a graduate program. The first course in the Masters in Public Administration started in February 1986. Due to the large number of requests a second program was funded which started in January 1987. Funding for these continued programs have been through the Aberdeen Area IHS Director's office, the Program's office, and IHS Headquarter's office.

South Dakota Small Business Development Center

The SBDC as well as the International Trade and Procurement Technical Assistance Center are under the direction of Donald Greenfield. The SD SBDC began operating January 1, 1985 under a cooperative agreement with U.S. Small Business Administration. To ensure coverage of the entire small business community in South Dakota, the number of offices serving the state increased from three in 1985 to five in 1986 (Vermillion, Sioux Falls, Aberdeen, Watertown, and Rapid City).

The South Dakota Small Business Development center provides managerial assistance to the small business community of the state. The SBDC links local, state, and federal programs with services provided by colleges, universities and the private sector. By pooling these resources, the SBDC provides management and technical assistance to small business throughout South Dakota. This is accomplished by the two main functions of the SBDC, direct consulting with small business owners/managers and sponsoring management training workshops around the state.

The primary goal of the SD SBDC is to enhance the progress and increase the probability of success for small business in South Dakota. Extended goals of this statewide cooperative effort are to:

1) Assist potential entrepreneurs in determining whether to enter the market place.
2) Encourage the growth and expansion of existing business ventures, thereby increasing job opportunities and employment.
3) Promote greater awareness on the part of small business owners of the need for sound financial operations.
4) Improve the economy of the state of South Dakota by responding to the managerial and operational needs of small business owners who are unable to retain private consultants.

The following table summarizes consulting and seminar activities conducted by the SBDC since January, 1985. Approximately 45% of consulting cases dealt with business start-ups, an encouraging indication of the spirit of entrepreneurship which exists in South Dakota.

	Clients	Seminars	Seminars Attenders	Inquiries
1985	248	33	589	N/A
1986	308	65	1,598	424
1987 (Jan-Mar)	77	16	411	113
TOTAL	633	114	2,598	537

The following table highlights the type of businesses assisted since the program began.

South Dakota Small Business Development Center

Client Spotlights

Type of Business	*Problem Areas*	*Assistance Provided*	*Results*
Manufacturing (computer) transportation containers)	Business Startup/ Sources of Capital	Developed complete business plan; Obtained Bank/SBA loan	National distribution; Employs 8
Service (health spa)	Business Startup/ Sources of Capital	Developed complete business plan; Obtained bank/SBA loan	Sales exceeded projections by 250% in one year; Employs 11

(table cont. on page 6)

(cont. from page 5)

Type of Business	Problem Areas	Assistance Provided	Results
Manufacturing (bed rails)	Business Turnaround	Financial analysis; Restructured marketing plan	National distribution; Employs 20
Manufacturing (personal) products)	Marketing/ Sources of Capital	Pricing strategy; Marketing plan; Business plan	Outside capital not required due to implementation of marketing strategies; National distribution; Employs 5
Manufacturing (heavy-duty truck trailers)	Business Startup/ Sources of Capital	Developed detailed cash flow analysis	Boot-strapped financing; Profitable in 8 months; Employs 8
Retail (office machines)	Declining sales/ Operating losses	Conducted break-even analysis; Restructured sales operations	Restructured debt; Obtained outside investors; Employs 6

South Dakota Procurement Technical Assistance Program

In March, 1986 the USD School of Business received a $126,000 Department of Defense procurement cooperative agreement to establish a Procurement Technical Assistance Center within the Business Research Bureau. Three and a half billion dollars of government contracts are placed annually in the three-state area of South Dakota, North Dakota, and Minnesota. South Dakota, unfortunately, received very little of this amount and ranked 49th out of 50 states in obtaining government contracts in 1985. Today South Dakota ranks 45th and has improved its share of government contracts by $50 million in the last year.

The Procurement Technical Assistance Center (PTA) provides assistance to those South Dakota firms interested in selling their products to the federal government. One-on-one consulting is provided to businesses in addition to seminars being conducted state-wide in order to reach all interested businesses.

The PTA provides many of its resources through the Small Business Development Center network of offices. Subscriptions to the Commerce Business Daily are located in each SBDC sub-center and are intended for client use.

In addition, the complete microfilm library of government standards and specifications and a microfilm reader/printer are located at the PTA center in Vermillion. Copies of specifications or standards are sent to procurement clients in the event they are unable to obtain the needed information from the Naval Publications and Forms Center in time to bid on specific solicitations. Over 12,000 copies of specifications and standards have been sent to businesses who were prospective bidders. Nine extremely active companies make requests routinely.

The SD Procurement Technical Assistance Program in conjunction with the SD SBDC has presented several seminars since the program began. The emphasis of procurement seminars is a "hands-on" approach, with clients receiving individual assistance in initiating the procurement process. These seminars conducted throughout South Dakota have allowed the PTA Center to develop plans for increasing both the number of companies involved and the number and size of contracts bid. A thorough and careful analysis of the market potential for South Dakota companies was made by comparing the Standard Industrial Classification codes of current and potential new-start businesses to federal purchasing requirements.

Examples of businesses not involved in the procurement process before 1986 and introduced to the procurement process by the South Dakota PTA Center include the following:

1) A Yankton manufacturer has been awarded more than twenty contracts totalling several hundred thousand dollars.
2) A manufacturer in Menno was the successful low bidder on a snow blower unit which went to Anchorage, Alaska.
3) The first federal procurement contract received by a Brandon manufacturer was in excess of $27,000.
4) Several other manufacturers, including two Watertown companies, are very close to receiving their first contract awards.

With this program just over a year old the results have been phenomenal. Over 200 clients were assisted in 1986-87. In South Dakota, 158 businesses became new bidders and 358 contracts were awarded. South Dakota procurement market analysis shows this is only the very beginning. As businesses gain experience in the bidding process and as their confidence grows as they win awards, the size of the contracts sought will also increase. This will benefit both the Department of Defense in terms of dollars saved and product quality, and the state of South Dakota through additional revenue injected into the economy and increased employment possibilities.

The PTA just recently installed computer software designed to locate, screen and match federal procurement requirements to the capabilities of individual businesses. This additional service will provide even greater awareness of the procurement process and certainly enhance the opportunities for SD businesses to successfully compete for federal purchasing contracts.

South Dakota International Trade Center

The International Trade Center was initiated November 1, 1985 to assist in the expansion of exporting activity by South Dakota firms. This program is responsible for the development and implementation of a state-wide international trade program. Activities include one-on-one consulting, conducting state-wide exporting seminars, developing and teaching a course(s) in exporting at USD's School of Business, and serving as a liaison between government and private entities.

Since November 1, 1985 thirteen exporting seminars have been presented to approximately 200 attendees. Nearly 1000 companies and individuals have been contacted to inform them of the services offered by the International Trade Center. Approximately eighty businesses in the state have expressed interest in and/or have the potential of exporting their products. The ITC has worked with thirty of these businesses, all of whom are new to the exporting process. An additional ten businesses with some experience in international trade have been assisted by the ITC to further their exporting activities. These forty clients will be helped on an ongoing basis as well as seeking additional businesses to assist.

Examples of clients assisted by the International Trade Center include the following:

1) A firm dealing in animal hides, after attending one of the export seminars made several contracts which led to a million dollar-plus business agreement with a Far-Eastern country.
2) A west river rancher after receiving an inquiry concerning the sale of a riding/show horse to a European individaul contacted the International Trade Center to gain an insight on how to obtain the quotations and other specifics on transportation of this animal if the sale were made. The ITC provided the rancher with this information and also calculated it would cost as much to ship two horses as it would one. The rancher received an order for two horses and is now in the process of planning the shipment.
3) There are a number of state and federal government programs concerning financing, locating agents/distributors, finding trade leads, and providing other market entry data. Numerous companies, some new to export and some already exporting, have utilized these programs to expand their sales and marketing efforts in the international arena.

A relatively new program undertaken by the ITC, but one of the most promising, is dealing with reverse investment or attracting overseas investment into South Dakota. A number of "Invest In U.S.A." seminars have been attended in Canada, Taiwan, and Korea. These seminars are designed to attract foreign investments. It is believed this type of ongoing program and the contacts being made will eventually bring about an increase in trade and employment in South Dakota.

The SD International Trade Center has been actively working to develop the infrastructure necessary for companies to export their products. The SD Regional Guide to International Commerce was developed by the ITC this year and is in the final review stages prior to printing. This should greatly assist newcomers to the exporting process and summarizes in one source the resources available to exporting businesses.

The SD Trade Information and Prospects Service (TIPS) is a program in the final stages of planning. TIPS will utilize the U.S. Department of Commerce "Trade Opportunities Program" which in 1984 supplied as many as 8,000 verified foreign trade leads. These leads will be disseminated to South Dakota businesses via the TIPS program.

The Internatinal Trade Program Director has completed and presented plans on the "SD International Trade Club" to the Industry and Commerce Association of South Dakota at their May 7, 1987 board meeting. The organization will be formed within the structure of the Association.

In an effort to promote the field of exporting within the state and encourage SD students to become knowledgeable and involved in this industry, the first "International Trade Case Studies" course was implemented at the USD School of Business in January, 1986. The course is designed to provide students real-life experience working with the ITC Director on actual export trade matters. Total enrollment has increased to 25 students working with about 30 firms throughout the state.

State Data Center

The State Data Center of South Dakota is under the direction of DeVee Dykstra, a two time graduate of USD. The State Data Center of South Dakota is the result of an agreement between South Dakota and the United States Bureau of the Census, the nation's largest agency for general purpose statistics. Currently, the SDC is partially funded by contracts with six state agencies. The State Data Center's primary goal is the promotion of improved research, administration, planning and decision making by state and local officials, business people, leaders of community organizations, planners, university researchers, and others. The SDC's purpose is to assist data users in the public and private sectors in accessing the broad range of census statistical data available from the Bureau of the Census.

The State Data Center and its affiliated agencies provide data users with a variety of services which include locating, interpreting, and processing census data. Answers to requests concerning census data are obtained from published reports, geographic maps, microfiche, and computer tapes. Examples of specific State interests served by the SDC include the following: providing State agencies with needed data quickly, efficiently, and at moderate cost; making more extensive use of a larger number of statistical resources; and encouraging the integration of census data with other statistics to create an improved basis for decision making.

Annually, the SDC responds to approximately 725 requests for economic and demographic information, an average of approximately three per day. Twenty-five percent of the requests have been made by private businesses and thirty-three percent are from state agencies.

The following table presents some of the major projects and activities performed by the SDC since July of 1985.

Project/Activity	Description
Research Projects & Publications	County and subcounty population estimates; county population by age, race and sex; county per capita income estimates; average household income; county population projection by age by sex.
Business Assistance and Dissemination of Census Data	Examples include: 1) demographic studies for business location, marketing, and planning decisions, including analysis of family and personal income, family makeup, crop yields, size of farm by income, and labor force availability; 2) training of State agency personnel on the availability and use of census data; 3) speaking engagements to commercial loan officers and entrepreneurs; and 4) distribution of the SDC newsletter.
1990 Census	1990 Census preparations include geographic area decisions and products for voting district reappropriation, training and technical assistance to community officials for review of local census counts, and questionnaire and product decisions, etc.

In addition to these major activities, the SDC Director spoke at the 6th Annual National SDC Meeting on "Dissemination of Economic Census Data in South Dakota." In addition, the Director was appointed to the National State Data Center Nominating Committee.

Strengths Of The BRB And BAP

The real strengths of the BRB and the BAP lie in the dedication of its personnel and the effectiveness of its leadership. The management and staff of the BRB and the BAP's have grown over the last few years to a group of 19 full-time employees, 1 part-time employee, 3 graduate assistants, and a varying number of work study students. While this is still a small organization it has grown considerably over the last ten years. R.M. Stuefen commented:

The strength which is shared throughout South Dakota

(continued on page 8)

State government is the size. A small group can respond to the needs or be more flexible to the needs of the requestor because of the limited bureaucracy.

There are many other strengths of the BRB of which the faculty is one of the most important. The ability to access experts in virtually any business area is a great asset. Location in the School of Business allows a two-way exchange to occur. Faculty members have one of the best research resources available while the BRB gains the use of the faculty's expertise in different areas of need.

One strength which often goes without mention is the excellent reputation of the BRB, which has been earned over many years. The BRB's reputation evolved into what it is today due to the fine leadership it has enjoyed recently, the high caliber of leadership it had in its past, and the fine reputation of the School of Business and its faculty.

The BRB is a complex organization whose purpose is to provide both the private and public sectors with a service: to collect and disseminate data and provide answers about this data to the various public agencies and private businesses requesting the assistance. The purpose of the BRB is not to necessarily generate a profit from providing this assistance, but to assist as many as possible for little to no charge if possible.

All in all the BRB has changed over the years; I think it is for the better. The new Business Assistance Programs have proven themselves so far and I expect them to have a continuing positive impact on the state as a whole. These programs have come about in no small part due to the efforts of all those mentioned in the preceding sections, but also because of the outstanding guidance of the Dean of the School of Business, Dale E. Clement. His advice and counsel have helped to navigate the programs through their genesis to solid and stable present and the promise of an exhilarating future.

SCHOOL OF BUSINESS INTERNSHIP PROGRAM AND EMPLOYMENT STATISTICS FOR SCHOOL YEAR ENDING MAY 15, 1987

Gene B. Iverson

Internship Program

The School of Business has been giving internship credit for work experiences since 1968. The internship program allows students the opportunity to apply classroom education in working atmosphere. Internships are open to those students who have completed at least one semester of course work in the School of Business.

The most valuable aspect of an on-the-job internship is the experience gained. As a salaried employee, the intern participates in company operations. We expect the students to perform as any other employee of the firm and we expect the firm to provide varied and worthwhile employment.

University credit up to eight (8) semester hours is given for this work experience. No reports are required of either the employer or the interning student. During the period of the internship the student is under the jurisdiction of the employer and, whenever possible, a representative of the School of Business will visit with the employer and the intern.

Many accounting majors take an internship with public accounting firms during the Spring semester of their senior years from January to March. Each year the internship program has been increasing in numbers. A new major in the School of Business is the Health Services Administration field and these students may earn up to twelve (12) semester hours of credit working in hospitals or for a health organization.

Table I shows the breakdown by term and by major.

Table I
School Of Business Interns
For 1986-87 School Year

	Accounting Majors	Management Majors	Total
Summer Term, 1986	27	86	113
Fall Semester, 1986	5	15	20
Spring Semester, 1987	50	46	96
TOTAL	82	147	229

The locations of students on internships varied from Washington to Florida with the majority of the students located in South Dakota. Table II shows the location of the interns in the immediate area.

Table II
Locations Of Internship Students

State	Number
South Dakota	161
Minnesota	16
Iowa	27
Nebraska	5
Other	20
TOTAL	229

The students in the internship program received credit ranging from one (1) to eight (8) semester hours of credit. The number of hours of credit is based on the amount of business experience obtained and the total hours worked by the students. The credit hours are based upon information provided by the firm offering the work experience.

Employment

Students finish their degree program and are available to enter the work force in August, December and May. Employment for December graduates was excellent while employment for May graduates appears to be strong. We will be conducting a survey of all 1986-87 academic year graduates to determine their employment opportunities and plans.

Approximately 271 students were registered with the Business Placement Bureau. This included 125 management majors, 83 accounting majors and 45 others; of these, 40 graduated in December 1986. In addition, 18 graduate students registered with us.

During the Fall semester, 28 firms interviewed students for internships and/or full-time employment in accounting. These firms interviewed 650 students and offered 55 internships and/or full-time employment. These firms represented

(cont. on page 12)

TAXABLE SALES
Counties and Selected Cities in South Dakota
Jan.-Feb., 1986 and 1987
(In $000's)

REGION I

	Jan.-Feb. 1986	Jan.-Feb. 1987	% Change		Jan.-Feb. 1986	Jan.-Feb. 1987	% Change		Jan.-Feb. 1986	Jan.-Feb. 1987	% Change
Brookings	16,390	16,645	1.6	Gary	136	129	-5.1	Kingsbury	2,879	2,947	2.4
Brookings	15,041	15,351	2.1	Toronto	339	284	-16.2	Arlington	797	829	4.0
Elkton	342	333	-2.6	Grant	7,062	6,045	-14.4	De Smet	1,191	1,327	11.4
Volga	475	480	1.1	Big Stone C.	412	410	-0.5	Lake Preston	442	347	-21.5
Clark	1,460	1,393	-4.6	Milbank	6,336	5,328	-15.9	Lake	6,407	6,615	3.2
Clark	1,081	1,042	-3.6	Hamlin	1,668	1,605	-3.8	Madison	5,955	6,146	3.2
Codington	21,910	24,008	9.6	Bryant	376	371	-1.3	Miner	1,282	1,233	-3.8
Watertown	21,315	23,271	9.2	Castlewood	158	184	16.5	Howard	1,007	964	-4.3
Deuel	2,236	2,245	0.4	Estelline	473	452	-4.4	Moody	4,864	4,558	-6.3
Clear Lake	1,644	1,696	3.0	Hayti	511	501	-26.8	Colman	3,118	2,963	-5.0
				Lake Norden	150	142	-5.3	Flandreau	1,576	1,454	-7.7
								TOTAL	66,158	67,295	1.7

REGION II

	Jan.-Feb. 1986	Jan.-Feb. 1987	% Change		Jan.-Feb. 1986	Jan.-Feb. 1987	% Change		Jan.-Feb. 1986	Jan.-Feb. 1987	% Change
Clay	6,780	7,737	10.8	Minnehaha	133,098	144,075	8.2	Centerville	504	468	-7.1
Vermillion	6,226	6,979	11.9	Baltic	289	375	29.8	Marion	1,267	1,477	8.9
Lincoln	4,525	5,228	15.7	Brandon	730	889	21.8	Parker	618	564	-8.7
Canton	1,887	2,090	10.8	Colton	336	327	-2.7	Union	4,048	4,126	1.9
Lennox	1,008	1,058	4.7	Dell Rapids	1,312	1,398	6.6	Alcester	1,248	1,366	1.3
McCook	2,406	2,443	1.4	Garretson	672	741	10.3	Beresford	1,404	1,391	-0.9
Bridgewater	346	345	-0.3	Hartford	341	346	1.5	Elk Point	850	857	0.8
Canistota	248	258	4.0	Sioux Falls	125,295	135,232	7.9				
Salem	1,497	1,497	0.0	Turner	3,500	3,539	1.1	TOTAL	154,558	167,153	8.1

REGION III

	Jan.-Feb. 1986	Jan.-Feb. 1987	% Change		Jan.-Feb. 1986	Jan.-Feb. 1987	% Change		Jan.-Feb. 1986	Jan.-Feb. 1987	% Change
Aurora	1,740	1,693	-2.7	Lake Andes	793	841	6.1	Leery	248	237	-4.4
Plankinton	1,207	1,198	-0.7	Platte	1,881	1,986	5.6	Hutchinson	4,629	4,561	-1.5
Bon Homme	3,471	3,375	-2.8	Wagner	1,584	1,606	1.4	Freeman	1,808	1,853	2.5
Avon	667	686	2.8	Davison	16,811	16,414	-2.5	Menno	643	647	0.6
Scotland	685	604	-11.8	Mitchell	16,493	17,799	7.9	Parkston	1,461	1,413	-3.3
Springfield	403	440	9.2	Douglas	1,618	1,682	4.0	Tripp	498	424	-14.9
Tabor	717	725	1.1	Armour	795	817	3.0	Jerauld	1,232	1,168	-5.2
Tyndall	948	854	-9.9	Corsica	631	624	-1.1	Wess. Sprgs.	1,060	1,046	-1.3
Brule	3,307	3,474	5.0	Gregory	2,976	2,802	-5.8	Sanborn	817	767	-6.1
Chamberlain	2,536	2,685	5.8	Burke	738	684	-7.3	Woonsocket	807	749	-1.3
Kimball	661	656	-1.7	Gregory	1,542	1,376	-10.8	Yankton	15,257	17,154	12.4
Charles Mix	4,504	4,697	4.3	Hanson	866	752	-13.2	Yankton	14,792	16,575	12.1
Geddes	147	135	-8.2	Alexandria	613	484	-21.0				
								TOTAL	57,208	60,519	5.8

REGION IV

	Jan.-Feb. 1986	Jan.-Feb. 1987	% Change		Jan.-Feb. 1986	Jan.-Feb. 1987	% Change		Jan.-Feb. 1986	Jan.-Feb. 1987	% Change
Beadle	16,165	16,237	0.4	Bowdle	465	416	-10.5	Lemmon	308	310	0.6
Huron	15,362	15,370	0.1	Hosmer	203	195	-3.9	Marshall	1,961	1,903	-3.0
Brown	33,293	40,652	22.1	Ipswich	1,192	1,115	-6.5	Britton	1,469	1,350	-8.1
Aberdeen	31,134	38,156	22.6	Roscoe	259	250	-3.5	Roberts	3,958	3,854	-2.6
Groton	991	990	-0.1	Faulk	1,175	1,103	-6.1	Sisseton	2,478	2,386	-3.7
Day	3,466	3,270	-5.7	Faulkton	801	800	-0.1	Willet	486	385	-20.6
Bristol	246	168	-31.7	Hand	2,593	2,515	-3.0	Spink	3,525	3,571	1.3
Waubay	178	184	3.4	Miller	2,340	2,292	-2.1	Doland	153	132	-13.7
Webster	2,744	2,629	-4.2	McPherson	1,360	1,207	-11.3	Redfield	2,926	2,954	1.0
Edmunds	2,176	2,035	-6.6	Eureka	1,009	840	-16.7				
								TOTAL	69,672	76,526	9.6

REGION V

	Jan.-Feb. 1986	Jan.-Feb. 1987	% Change		Jan.-Feb. 1986	Jan.-Feb. 1987	% Change		Jan.-Feb. 1986	Jan.-Feb. 1987	% Change
Buffalo	23	11	-52.2	Pierre	13,611	14,668	7.8	Stanley	1,589	1,830	15.2
Campbell	762	818	7.3	Hyde	1,357	1,184	-12.7	Ft. Pierre	1,570	1,812	15.4
Herreid	425	475	11.8	Highmore	1,736	1,163	-12.9	Sully	859	811	-5.3
Pollock	273	285	4.4	Jones	1,486	1,353	-9.0	Onida	765	772	-1.7
Corson	508	441	-13.2	Murdo	1,295	1,268	-9.1	Tripp	4,760	5,076	7.1
McIntosh	165	125	-24.2	Lyman	1,521	1,548	1.8	Winner	4,511	4,826	7.0
McLaughlin	201	177	-11.9	Dacoma	620	639	3.1	Todd	1,595	1,583	-0.8
Dewey	1,872	1,898	1.4	Presho	390	437	12.1	Mission	1,554	1,592	2.4
Eagle Butte	1,332	1,271	-4.6	Mellette	471	425	-9.8	Walworth	5,621	5,526	-1.7
Isabel	143	196	37.1	White River	412	379	-8.0	Mobridge	2,997	3,939	31.5
Timber Lake	283	337	19.1	Perkins	2,327	2,539	-6.9	Selby	1,112	1,030	-7.4
Haakon	1,565	1,793	14.6	Lemmon	2,141	1,978	-7.6	Ziebach	302	289	-4.3
Philip	1,406	1,647	17.1	Potter	1,933	1,881	-2.7	Dupree	280	273	-2.5
Hughes	14,171	15,224	7.4	Gettysburg	1,340	1,331	-0.7				
Blunt	456	420	-7.9	Haven	520	472	-9.2	TOTAL	42,101	44,248	5.1

REGION VI

	Jan.-Feb. 1986	Jan.-Feb. 1987	% Change		Jan.-Feb. 1986	Jan.-Feb. 1987	% Change		Jan.-Feb. 1986	Jan.-Feb. 1987	% Change
Bennett	1,644	1,644	0.0	Harding	507	374	-26.2	Meade	5,927	6,246	5.4
Martin	1,616	1,607	-0.6	Buffalo	456	305	-33.1	Faith	721	707	-1.9
Butte	4,971	5,116	2.9	Jackson	1,240	896	-27.7	Sturgis	4,511	4,542	5.4
Belle Fche.	3,698	4,209	15.8	Kadoka	1,069	724	-32.5	Pennington	81,036	90,716	11.9
Newell	835	831	-0.5	Lawrence	14,788	14,507	-1.9	Rapid City	72,923	84,813	14.7
Custer	2,864	2,764	-3.5	Deadwood	2,459	3,010	22.4	Wall	2,555	2,695	5.5
Custer	2,731	2,594	-5.0	Lead	3,899	3,662	-6.1	Shannon	671	670	-0.1
Fall River	3,667	3,721	1.5	Spearfish	6,440	7,433	15.4	Pine Ridge	107	100	-6.5
Edgemont	708	685	-3.2	Whitewood	252	313	24.2	Washabaugh	13	14	7.7
Hot Sprgs.	2,796	2,914	4.2								
								TOTAL	117,527	126,667	8.0
								STATE TOTAL	508,024	542,208	6.7

For further information on sales tax data contact Nancy Nelson at the Business Research Bureau.

SOUTH DAKOTA INCOME AND EMPLOYMENT

TOTAL PERSONAL INCOME
United States, Plains Region and States
Fourth Quarter 1985 - Fourth Quarter 1986
(Millions of Dollars, Seasonally Adjusted at Annual Rates)

	1985	1986				% Change
	4th Qtr.	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	4th Qtr. 1985 to 4th Qtr. 1986
United States	3,379,652	3,430,620	3,485,751	3,498,710	3,529,745	4.4
Plains States	236,206	237,305	249,749	241,008	244,360	3.5
Iowa	36,142	36,796	39,841	37,275	36,860	2.0
Kansas	34,478	34,485	35,761	35,195	36,065	4.6
Minnesota	59,767	60,704	63,158	61,958	62,594	4.7
Missouri	67,832	68,368	69,328	69,443	69,613	2.6
Nebraska	21,393	21,248	23,824	21,244	21,731	1.6
North Dakota	8,627	7,667	8,883	7,776	9,046	4.9
South Dakota	7,967	8,036	8,953	8,117	8,451	6.1

Note: Detail may not add to totals because of rounding.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

SOUTH DAKOTA NONAGRICULTURAL WAGE AND SALARY EMPLOYMENT
March 1986 and March 1987
(In thousands)

				Average Weekly Hours		Average Hourly Earnings	
	March 1986	March 1987	% Change	March 1986	March 1987	March 1986	March 1987
Total Employment	245.0	249.3	1.8				
Mining	2.4	2.4	0.0				
Construction	7.0	7.5	7.1				
Manufacturing	27.2	28.5	4.8	42.0	42.2	$7.61	$8.00
Durable Goods	14.2	15.3	7.7	41.1	41.7	$7.39	$7.76
Fabricated Metals & Mach.	8.6	9.5	10.5				
Nondurable Goods	13.0	13.2	1.5	43.0	42.8	$7.86	$8.28
Food & Kindred Products	7.7	7.7	0.0				
Paper, Printing & Publishing	2.7	2.8	3.7				
Transportation & Pub. Utilities	12.6	12.5	-0.8				
Transportation	7.5	7.4	-1.3				
Communication	2.8	2.9	3.6				
Electric/Gas/Sanitary Services	2.3	2.2	-4.3				
Wholesale & Retail Trade	63.0	64.1	1.7				
Wholesale Trade	15.9	15.9	0.0				
Durable Goods	7.1	7.0	-1.4				
Nondurable Goods	8.8	8.9	1.1				
Retail Trade	47.1	48.3	2.5				
Finance, Insurance & Real Estate	14.0	14.4	2.9				
Services	59.3	60.1	1.3				
Hotels, Amuse., Pers. & Business	15.2	15.7	3.3				
Medical & Health	22.8	23.3	2.2				
Educational, Membership & Social	17.9	17.9	0.0				
Government	59.5	59.8	0.5				
Federal	10.5	11.1	5.7				
State	16.5	16.2	-1.8				
State Education	8.2	7.9	-3.7				
Local	32.5	32.6	0.3				
Local Education	19.5	19.6	0.5				

Source: South Dakota Department of Labor

For further information contact Nancy Nelson

SOUTH DAKOTA AGRICULTURAL INDICATORS

PROSPECTIVE PLANTINGS
MARCH 1987
(000's Acres)

Crop	Acreage Planted Actual 1985	1986	Intentions 1987 1/
Corn, grain	2,510	3,300	3,100
Sorghum, grain	560	450	400
Oats	1,900	1,500	1,400
Barley	780	950	900
Soybeans	1,290	1,350	1,380
Flaxseed	100	110	70
Durum Wheat	90	65	80
Other Spring Wheat 2/	2,230	2,100	1,900
All Sunflowers	520	380	300
All Hay 3/	3,500	4,700	4,200

1/Intended plantings in 1987 as indicated by reports from farmers.
2/Other than durum.
3/Harvested acreage.
Source: South Dakota Crop & Livestock Reporter

PRICES RECEIVED BY FARMERS FOR COMMODITIES SOLD--SOUTH DAKOTA
March 1986 and 1987

Commodity and Unit		Base Period Price 1910-1914 Average	March 1986	March 1987	March 1987 Price as % of Base	March 1987 Price Above or Below March 1986
Wheat	Bu.	0.85	3.48	2.42	285	-30.5
Corn	Bu.	0.51	2.15	1.30	255	-39.5
Oats	Bu.	0.35	1.04	1.38	394	32.7
Barley	Bu.	0.59	1.08	1.51	256	39.7
Flaxseed	Bu.	1.68	4.98	2.73	163	-45.2
Milk, Whsl.	Cwt.	1.82	1/	1/	-	-
Eggs	Doz.	0.196	1/	1/	-	-
Cattle	Cwt.	5.24	52.00	61.50	1174	18.3
Calves	Cwt.	6.08	65.90	78.50	1255	19.4
Hogs	Cwt.	7.07	39.80	47.50	672	19.3
Sheep	Cwt.	4.24	26.10	29.70	700	13.8
Lambs	Cwt.	5.66	65.20	82.60	1459	26.7
Wool	Lb.	0.178	0.59	0.68	382	15.3

1/ Season average price only.

Source: South Dakota Crop & Livestock Reporter.

SOUTH DAKOTA LOCAL CONDITIONS INDICATORS

SOUTH DAKOTA LOCAL CONDITIONS INDICATORS
(% Change Like Period Previous Yr.)

City	Total	Taxable Sales/1 Retail	Services	Telephone Services/2	Housing Starts/3	Postal Indicator/4	Employments/2
Aberdeen	22.6	28.4	6.6	1.5		19.9	8.4
Belle Fourche	13.8	20.7	-2.7	0.8			5.0
Brookings	2.1	2.0	9.4			1.8	4.0
Canton	10.8	-1.4	-1.2	-0.7			6.2
Chamberlain	5.8	8.2	14.8	-0.2			-2.6
Deadwood	22.4	25.1	-19.7	1.4			5.8
De Smet	11.4	9.4	-8.7	1.0			1.6
Elk Point	0.8	-3.7	8.7	0.0			1.6
Hot Springs	4.2	3.8	10.0				2.6
Huron	0.1	5.2	-8.7	1.6	0.0	5.2	3.5
Lead	-6.1	4.3	29.7	-1.2			5.8
Madison	3.2	7.8	24.0	-0.1	0.0		7.8
Milbank	-15.9	-26.3	9.9	1.2			2.5
Mitchell	7.9	9.0	-3.0	1.2		15.7	4.4
Mobridge	-1.5	-1.9	-2.0	-0.7			-0.8
Pierre	7.8	12.6	3.1	2.2	289.2	31.7	2.9
Rapid City	14.7	19.1	7.5	3.4	-34.9	32.5	5.9
Sioux Falls	7.9	8.1	7.1	2.1	187.1	-8.7	4.1
Spearfish	15.4	22.7	4.6		-9.6		5.8
Sturgis	5.4	13.0	-25.3	1.3			4.0
Vermillion	11.9	13.2	11.4	1.7			1.2
Watertown	9.2	10.9	23.1	0.8	155.8	0.0	5.1
Winner	7.0	4.2	21.2	0.4			-2.5
Yankton	12.1	6.6	9.3	0.8		16.9	2.9

*Based on County Data

1/Percentage change for January-February 1986 and 1987.

2/Percentage change for March 1986 and 1987. Telephone data are for the number of access lines in service.

3/Percentage change for January-March of 1986 and 1987. Data reported for housing represent the value of housing starts.

4/Percentage change for the first quarter of 1986 and 1987. Included in postal indicators are: postage stock sales, postage meters for customers, meter imprint postage (3rd class regular), and second class postage.

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Continued from page 8

35 locations. In addition, another 19 firms interviewed in the Fall for management, accounting, health services and computer science positions. They were looking for both December 1986 and May 1987 graduates. These 19 firms had 39 schedules and interviewed a total of 336 students.

In the Spring semester 50 firms were on campus and talked to over 780 students in accounting, management and computer science. In summary, 271 students registered with the Business Placement Bureau and 97 firms conducted 1766 on campus interviews. The 221 students actively engaged in seeking employment had, on the average, eight interviews each.

Many students are making their final decisions and the employment information is changing daily. Table III shows the breakdown of 101 students that have thus far notified the Business Placement Office of their plans and where they will be located.

Table III
JOB LOCATIONS

	Number	Percent
South Dakota	27	26.7
Out-of-State	53	52.5
Graduate School or Law School	8	7.9
Following Spouse	13	12.9
TOTAL	101	100.0

(continued from page 2)

this year. Spending by consumers is expected to slow in response to big consumer debt levels.

The seasonally adjusted unemployment rate was down slightly in the first quarter of 1987 (6.6 percent) compared to the fourth quarter rate of 6.7 percent, but was lower than the 7.0 percent rate of a year ago. Nonfarm employment increased 2.4 percent in the first quarter of 1987 compared to a year ago matching the historical average rate of increase. The Ninth Federal Reserve District national model predicts rapid growth in this indicator during 1987 — exceeding the historical growth rate of 2.4 percent.

Weak auto sales in May 1987 are contributing to the 1.5 percent decline in spending on durable goods. Moderate income gains are likely to contain consumer spending in the months ahead.

Housing starts in the first five months of 1987 compared to a year ago are down 10.5 percent. Housing construction activity is expected to be slowing in the coming months. Manufacturing is showing an upward trend. Improving trade volume is increasing industrial output which rose 0.5 percent in May 1987.

The consumer price index for May 1987 was 3.8 percent above its year-earlier level. Inflation is expected to ease for the last half of the year.

CONSUMER PRICE INDEX*
United States
Jan.-Mar. 1987
(1967=100)

Item	Jan.	Feb.	March	% Change Jan.-Mar.
All Items	335.1	334.4	335.9	0.8
Food & beverages	320.5	321.6	321.6	0.3
Food	320.9	320.1	320.0	0.3
Alcoholic beverages	242.5	243.2	243.6	0.5
Housing	363.9	365.1	366.4	0.7
Shelter	412.3	414.0	415.9	0.9
Renters' costs	125.3	125.8	126.4	0.9
Homeowners' costs	122.0	122.5	123.0	0.8
Fuel & other utilities	373.7	374.8	374.9	0.3
Fuel	443.7	445.1	444.6	0.2
Fuel oil, coal & btld. gas	487.9	503.2	500.6	2.6
Gas (piped) & electricity	428.8	428.9	428.7	-0.0
Other util. & fub. Services	254.9	255.6	256.2	0.5
Household furn. & operation	253.1	253.5	254.3	0.5
Apparel & upkeep	207.1	208.4	215.2	3.9
Transportation	308.5	310.0	310.6	0.7
Private transportation	299.8	301.3	301.9	0.7
Public transportation	438.9	439.8	441.4	0.6
Medical care	449.6	452.4	455.0	1.2
Entertainment	278.3	278.7	279.8	0.5
Other goods and services	358.1	359.7	360.3	0.6

*Consumer Price Index for all Urban Consumers

Source: Bureau of Labor Statistics, U.S. Dept. of Labor

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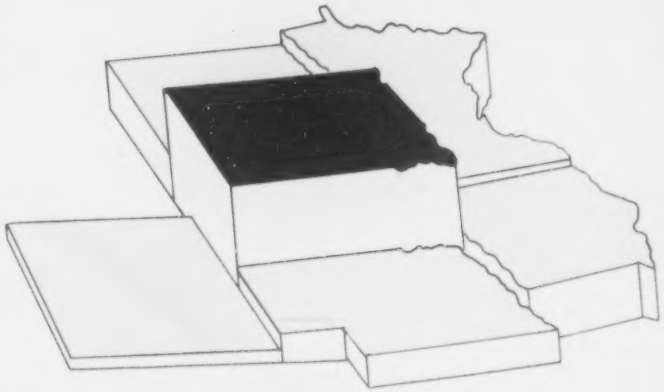

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General Indicators	Latest Quarter	SOUTH DAKOTA Latest Quarter	SOUTH DAKOTA Year Ago	SOUTH DAKOTA Percent Change	UNITED STATES Latest Quarter	UNITED STATES Year Ago	UNITED STATES Percent Change
Personal Income ($ Mil.)	1987-1	8,496	8,036	5.7	3,589,692	3,430,620	4.6
Farm Prop. Income ($ Mil.)	1987-1	749	530	41.3	29,546	22,734	30.0
Non-ag Employment (Thous.)	1987-2	257	254	1.2	101,686	99,321	2.4
Unemployment Rate (%)	1987-2	3.7	4.2	-11.9	6.2	7.1	-12.7
Total Employment (Thous.)	1987-2	346	336	3.0	112,305	109,370	2.7

Note: All U.S. data seasonally adjusted except for the unemployment rate and total employment. For South Dakota only personal income and farm proprietors' income are seasonally adjusted.

EDUCATION FINANCE IN SOUTH DAKOTA

Ray J. Ring

In South Dakota, as in most states, local districts provide elementary and secondary education under the direction of locally-elected school boards. While the school boards are responsible for most direct spending for grade and high school education, they receive funds from federal and state governments in addition to local sources. In short, all three levels of government share financing responsiblities, with local districts —school boards— actually spending the funds. (Of course, granting governments often limit how their aid can be spent.)

Continued on page 4

About the Author: Dr. Ray J. Ring is Associate Professor of Economics at the School of Business, The University of South Dakota, Vermillion, South Dakota.

SOUTH DAKOTA'S AID TO EDUCATION FORMULA

Dale Bertsch

Introduction. The 1986 Legislature, after considerable debate and compromise, made significant changes to the formula (hereafter referred to as the new formula and sometimes called the foundation program) that allocates state funds to local school districts. The purpose of the new formula is to provide for an equitable method of providing state financial aid to local school districts. Since the new formula (passed into law through the provisions of 1986 Senate Bill 155) provided for an entirely new method of providing state aid to local school

Continued on page 4

About the Author: Dale Bertsch is Chief Fiscal Analyst with the South Dakota Legislative Research Council in Pierre, South Dakota.

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TREND OF BUSINESS

South Dakota Economy

South Dakota's employment sector experienced moderate growth in the second quarter of 1987 compared to the second quarter of last year. For this period nonfarm employment on a seasonally adjusted basis rose 1.1 percent. For the year the outlook is for an average growth of 2 percent.

Construction employment rose 3 percent in the second quarter of 1987 compared to a year ago. This indicator has continued to show gains following a third quarter 1986 decline.

The unemployment rate fell slightly in the second quarter of 1987 compared to the previous quarter. It was considerably lower than this period a year ago—4.0 percent in 1987 compared to 4.6 percent a year ago.

South Dakota's personal income in the first quarter of 1987 rose nearly 3 percent compared to a year ago. The outlook for the year is for growth of nearly 5 percent compared to 1986. Compared to the fourth quarter of 1986, farm income fell nearly 2 percent in the first quarter of 1987. Profits for cattle and hog raisers should continue for several more quarters.

Sales of new trucks were exceptionally strong in the second quarter of 1987 compared to the first quarter with a seasonally adjusted gain of 32.3 percent. Low interest rate incentives have strengthened this indicator. New car sales, however, fell nearly 5 percent for this same period.

The United States Economy

U.S. total employment showed second quarter gains compared to a year ago resulting in a 2.7 percent increase. Nonfarm employment rose 2.4 percent for this period. The unemployment rate fell from 7.1 percent in the second quarter of 1986 to 6.2 percent in the second quarter of 1987. For the year it is expected to remain near 6 percent.

Second quarter GNP grew at a 2.3 percent annual rate. The outlook for the third quarter is for a 2.6 percent annual rate increase strengthened by an upward revision in industrial production. Moderate gains were made in 1985 and 1986 of 2.0 percent and 1.1 percent, respectively in industrial production. The outlook for 1987 and 1988 are for increases of 3.0 percent and 3.9 percent, respectively as reported by "Blue Chip Economic Indicators."

Rising inflation, as measured by the Consumer Price Index (CPI), has been gradually increasing during the first half of the year. It is expected to slow in the second half of the year. For 1987 and 1988, Blue Chip predicts CPI to increase 3.8 percent and 4.6 percent, respectively.

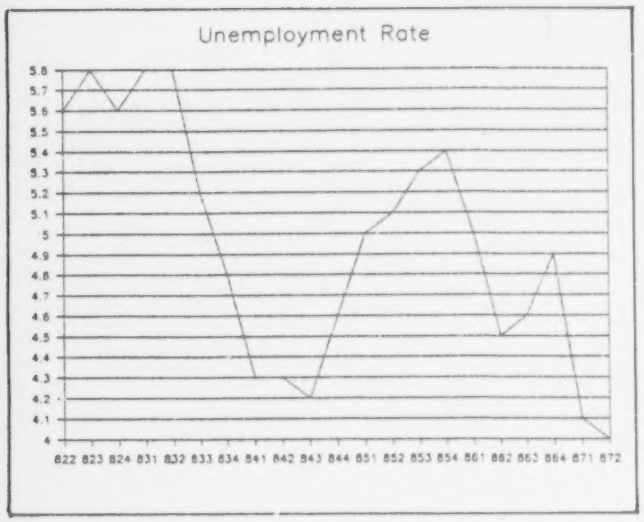
South Dakota Business Indices
1986-1987
Seasonally Adjusted (1982=100)

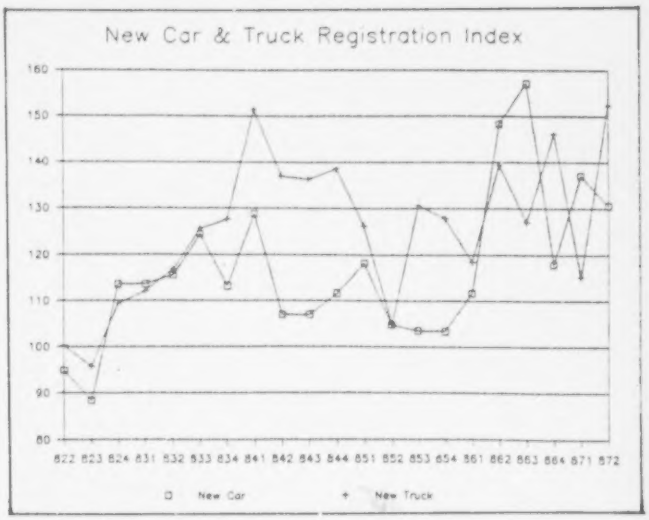
	1986				1987	
	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	1st Qtr.	2nd Qtr.
Personal Income	106.3	118.8	106.7	109.8	109.3	
Farm Proprietors Income	117.5	306.3	99.6	164.4	161.5	
Nonfarm Employment	105.8	110.2	109.6	110.2	107.4	111.4
Construction Employment	112.6	123.1	116.9	119.0	122.7	126.9
Unemployment Rate (%)	5.0	4.6	4.6	4.9	4.1	4.0
New Cars	111.6	148.3	157.1	117.9	137.1	130.6
New Trucks	118.4	139.3	127.0	146.2	115.3	152.5

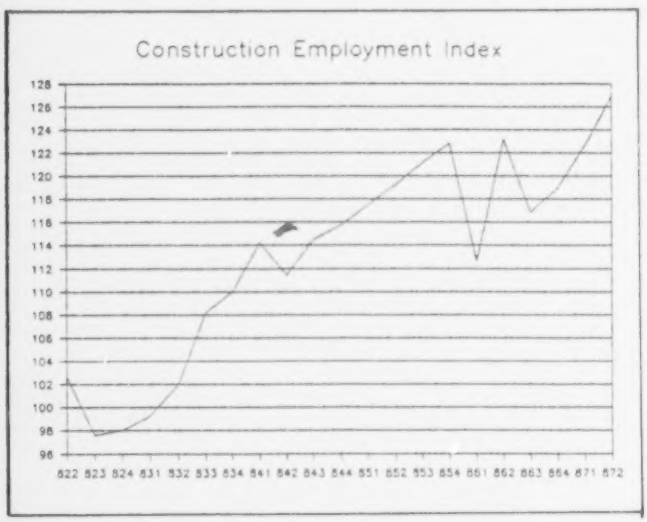
SOUTH DAKOTA BUSINESS & ECONOMIC INDICES

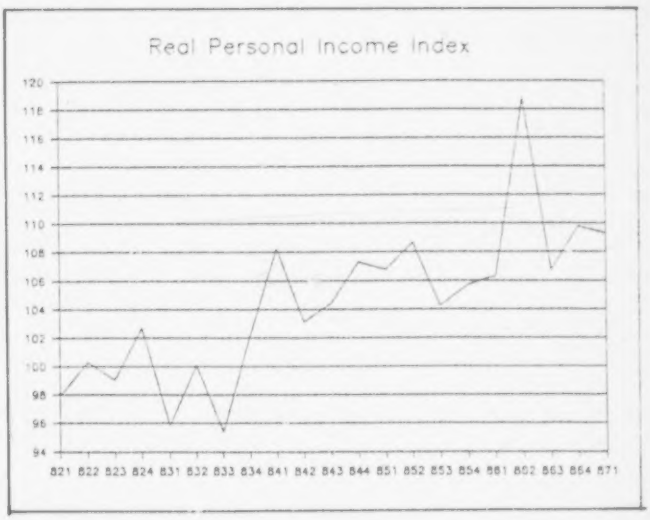
Quarterly Data 1982-1987

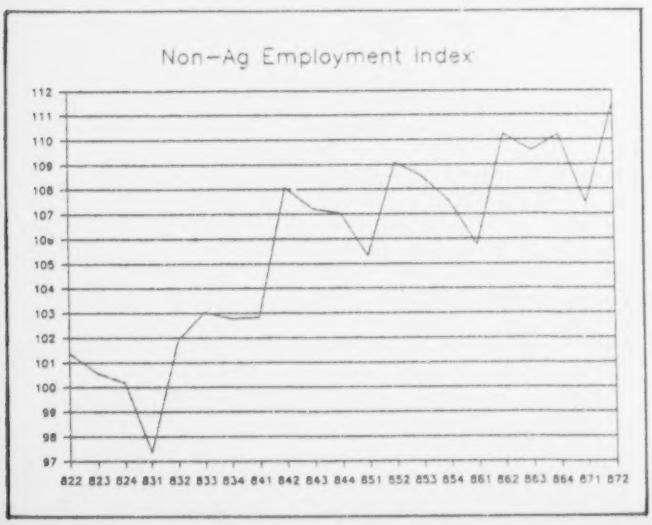
Adjusted for Seasonal Variation

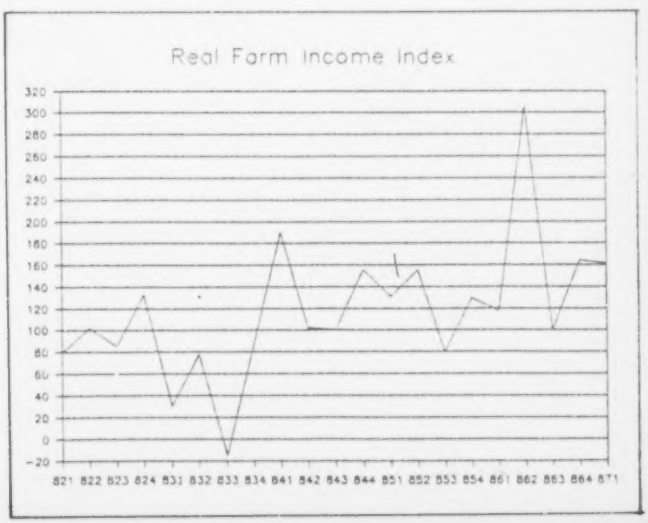












Continued from page 1

South Dakota school districts receive about 11.0 percent of their finances from the federal government, a considerably larger share than the 6.6 percent national average. Only Mississippi receives a larger share of local school finances from the federal government.[1]

South Dakota state aid to education also deviates from the national pattern. Considering only state and local sources (i.e., disregarding federal aid), the fifty state governments together provide over 50 percent of elementary and secondary education funds. By contrast, South Dakota state government provides about 30 percent of state and local support for education. Only two states rely more heavily on local revenue sources to pay for local education.[2]

In South Dakota (as in most other states) the property tax is the school districts' only significant local tax source. This and South Dakota's great reliance on local sources to finance education explain another distinctive feature of the state's tax structure: great dependence, compared to other states, on the property tax. Over 43 percent of our state and local taxes come from the property tax. Only two states depend more on the property tax.[3] Having no individual or corporation income tax reduces South Dakota's tax revenues and necessitates greater reliance on the property tax.

While low compared to other states, South Dakota's state aid to local schools has increased as a proportion of total funding. State aid, which now accounts for nearly 30 percent of school district revenues, accounted for less than 25 percent in 1980 and less than 15 percent in 1970.[4] It is the local districts' second largest source of funds, warranting further examination. We will now examine the most common justifications for state aid to education.

Equalization of Fiscal Capacity

Many states have preempted sales and income taxes: they already use them extensively and usually don't allow school districts to use them. As a result, state governments have greater revenue-raising capacity than do local school districts. To make fiscal capacity more equal, states give intergovernmental aid to local governments, including state aid to local schools.

Equity in Classroom Opportunity

Many people feel that education enhances the opportunity to participate meaningfully and successfully in society. Leaving education exclusively to the private sector would deny that opportunity to any child who cannot (or whose parents cannot) afford to pay the price. This may be the most basic reason for requiring all taxpayers—not just the direct beneficiaries and their parents—to pay for education: to make it available to all, independent of ability to pay.

The state could require that each local school district educate its own residents with no outside financial help. In that case, education would not depend on the students' (or parents') ability to pay, but it would depend on the income and wealth (and willingness to use them for education) of people living in his/her community. Because some districts are richer than others, some people would have more educational opportunity than others.

To make educational opportunities more uniform—or at least ensure minimum levels—states support local schools through state aid programs. The amount of aid to which a district is entitled, the equity consideration, depends in part on a district's revenue raising capacity—usually, as in South Dakota, on its property values.

Externalities-Education Beyond the Student

Education benefits many persons besides the ones being educated. Local residents are better off if their neighbors are well-informed citizen-voters and productive contributors to the society and economy. This is another reason for the entire community to contribute to society: the entire community benefits.

When people move, they take their education along and their new community gains from the education their hometown provided. If the hometown did a poor job, the new community has a less-informed citizenry, more unemployed people, etc. Thus each local school has an impact—for good or for ill—far beyond its own boundaries. These impacts are called "externalities."

Each school board is responsible to residents of its own district. When deciding how much to spend, it considers local residents' costs and benefits, but is less likely to consider externalities. It does what it thinks is best for local residents, but ignores the wider society—state and nation.

State aid to local schools can be designed to "internalize" these externalities: induce local districts to include external effects in their deliberations. The state in effect reimburses the school district for its external benefits. When the local district weighs its own (internal) benefits against its own costs—what it spends minus the state's reimbursement—it tacitly includes externalities in its calculations. Local taxpayers are paying for local benefits and state taxpayers are paying for statewide benefits.

Although they did not say so explicitly, it seems the drafters of South Dakota's Constitution had both equity and externalities in mind when they provided for schools in Article VIII, Section 1:

> *The stability of a republican form of government depending on the morality and intelligence of the people, it shall be the duty of the Legislature to establish and maintain a general and uniform system of public schools wherein tuition shall be without charge and equally open to all; and to adopt all suitable means to secure to the people the advantages and opportunities of education.*

South Dakota's new state aid formula includes provisions to reduce inequality and internalize externalities. The amount of aid depends on the district's assessed value so that, everything else being the same, poorer districts receive more aid. As spending increases, aid increases. The state is partially reimbursing school districts for additional spending and the resultant external benefits.

---

[1]Advisory Commission on Intergovernmental Relations, ***Significant Features of Fiscal Federalism***, 1985-87 Edition (Washington, D.C.: U.S. Government Printing Office, 1986), p. 37. Data are for 1984-85 school year.
[2]Ibid.
[3]Ibid., p. 55.
[4]Ibid., p. 37.

Continued from page 1

districts, some school districts were favorably impacted and some were unfavorably impacted vis-a-vis the previous state aid formula. Much of the debate and compromise involved limiting the impact, either favorably or unfavorably on any school district. The 1987 Legislature made some minor changes to the new formula, which is the formula that currently is in place for distributing state aid to education.

Before discussing the way in which the new formula works, a brief discussion of school district accounting is in order. Revenue received by a school district is generally deposited into one of four school district funds: 1) the general fund,

which is used to pay the operating expenses of the school district; 2) the capital outlay fund, which is a "savings account" for future capital projects; 3) the special education fund, which is earmarked for providing special education services; and 4) the bond redemption fund, which is earmarked for debt service on capital projects. School districts may spend money out of the general fund for any of the purposes of the other three funds, but money in the three funds other than the general fund can be spent only on the purposes described by that fund. The new formula uses a school district's general fund expenditures as an important factor in determining state aid.

Some School District Statistics. The 1985-86 school year found 194 public school districts, with nearly 125,000 students in attendance. Total general fund expenditures of all 194 school districts amounted to over $331 million, with instructional costs being just over $197 million (59.4%). Major revenue sources for the general fund were:

Property and Other Local Taxes	$182 million
Interest	6 million
Fines	5 million
State Aid to Education	58 million
School & Public Lands Funds	12 million
Personal Property Tax Replacement	21 million
Various Federal Funds	35 million

The above figures account for $319 million out of $332 million of school district general fund receipts. (1) The importance of the formula that distributes state aid lies in the fact that it is the second largest source of revenue to the general fund of the state's 194 school districts.

The Formula. The new formula, like its predecessor, is a series of caluclations using data inputs; both the calculations and the data inputs are defined in state law. (2) The basic algorithm (3) for the new formula is: state aid = general fund expenditures minus local tax effort minus non-local general fund revenue. Data inputs for the new formula are taken from the "school fiscal year two years prior to the school fiscal year for which state aid is distributed under the foundation program." (4) This, for example, means that state aid scheduled to be paid to school districts in fiscal year 1988 is based on school district data from the 1985-86 school year. The reason for this is that state aid for fiscal year 1988 was appropriated by the 1987 Legislature, and school district data from the 1985-86 school year was the most recent actual data available at that time.

Data from two areas are inputs to the new formula. One area is school district property valuations (this determines a school district's ability to raise tax revenues from its tax base). The second area is school district data dealing with enrollments, revenuew, and expenditures.

The steps in computing state aid can be categorized into the following phases: Phase 1—determine the value of property in each school district, which in turn defines the school district tax base; Phase 2—determine the "local effort" from general fund revenues and expenditures for the school district; Phase 3—use the data derived from Phase 1 and Phase 2 to compute state aid for each school district. The accompanying flow chart is divided into the same three phases.

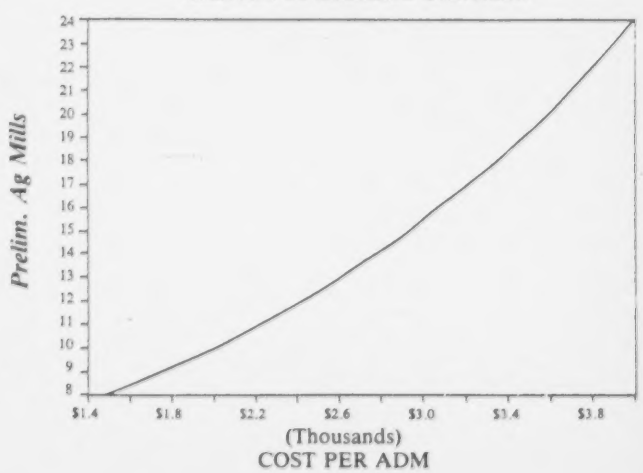
Phase 1 is a recognition of the fact that local property taxing practices vary from school district to school district. The calculations in Phase 1 (see the flow chart) begin with four knowns. These are assessed values for agricultural (box 1) and non-agricultural (box 2) property; and the sales ratio for agricultural (box 3) and non-agricultural (box 4) property. The assessed values are the value placed upon a piece of property by the local assessor for tax purposes. The sales ratio is a ratio of the assessed value of a piece of property to the seling price of that piece of property. The sales ratios for agricultural and non-agricultural property are separately calculated and aggregated. (NOTE: sales ratios are primarily used to measure how close a local assessor's assessments come to selling prices and how consistent assessments are in relation to selling prices.) The median sales ratio for each type of property (ag and non-ag) is divided into the assessed value of all property in the school district in order to arrive at an estimate for the market value (boxes 5 and 6) of all property in the school district. The market value for each type of property is multiplied by 60% to determine the maximum tax base for each school district (boxes 7 and 8). This maximum tax base is used to calculate local effort in Phase 2.

Phase 2 is designed to arrive at an amount that a school district should be expected to raise in taxes from its property tax base. This phase begins by subtracting federal and miscellaneous revenue (box 10) and excess general fund balances (box 11) (set by the State Board of Education) from general fund expenditures (box 9). The result of this subtraction (box 13) is divided by the average daily membership (box 12). This quotient represents a "cost" per student (box 14). This cost per student is converted into a mill levy rate (box 15) which is internal to the formula. The conversion is such that the greater the cost per student, the greater the mill levy (and consequently, the greater local effort). The formula for the conversion is:

preliminary ag mills = $ae^{(bc)}$ where:
a = 4.138253903
e = base of natural logorithms (2.71821828)
b = "cost" per student
c = 0.000439445.

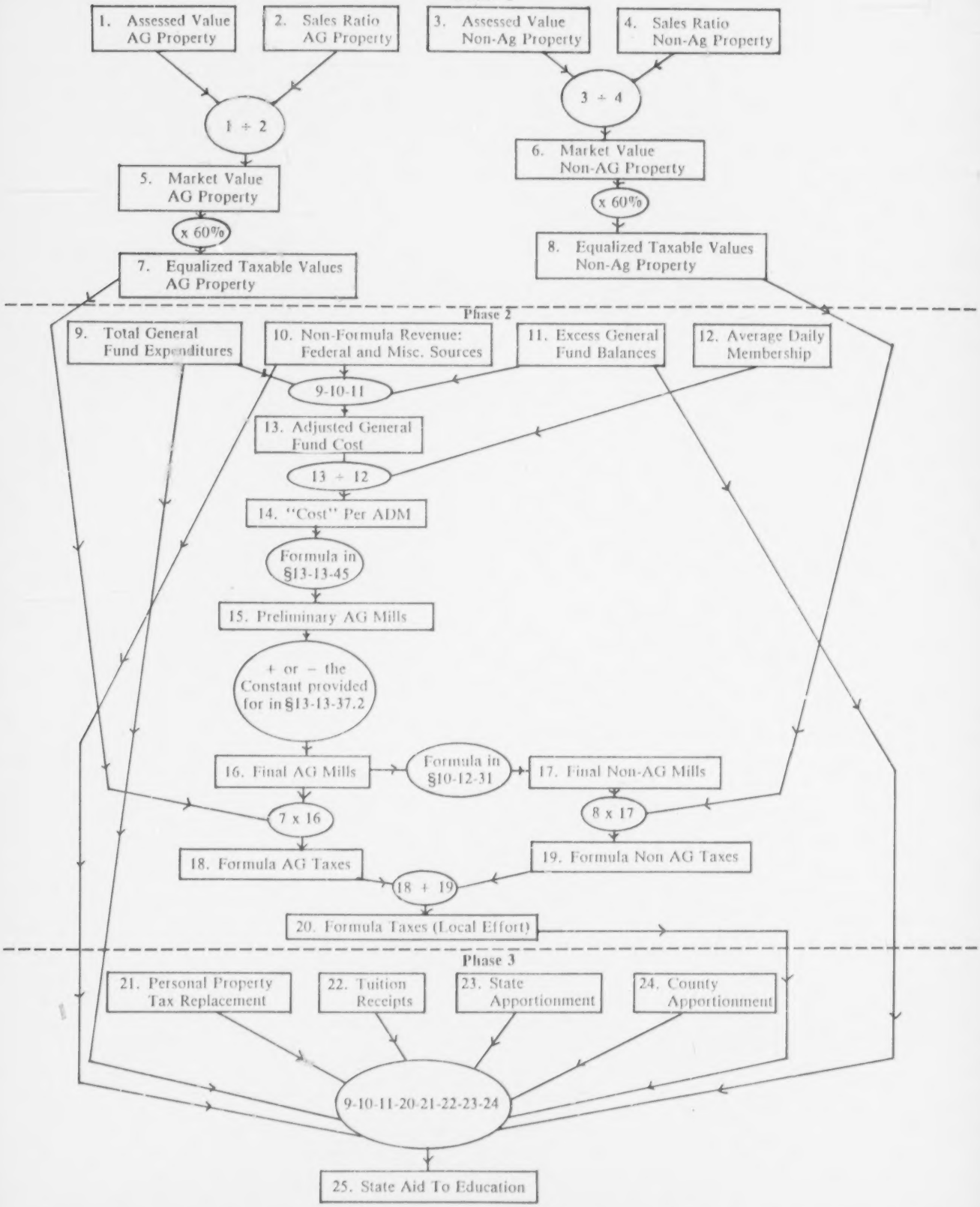
The conversion curve provides that school districts that tend to spend more will be required to provide an increasingly greater local effort. The shape of the curve is illustrated below.

Cost Per Adm & Prelim. Ag Mills
State Aid To Education Conversion



After this calculation is made, the conversion continues by allowing a reduction for each school district according to school district size. The reduction appears on page 7.

State Aid To Education Flow Chart


Phase 1
1. Assessed Value AG Property
2. Sales Ratio AG Property
3. Assessed Value Non-Ag Property
4. Sales Ratio Non-Ag Property
1 ÷ 2
3 ÷ 4
5. Market Value AG Property
6. Market Value Non-AG Property
x 60%
x 60%
7. Equalized Taxable Values AG Property
8. Equalized Taxable Values Non-Ag Property
Phase 2
9. Total General Fund Expenditures
10. Non-Formula Revenue: Federal and Misc. Sources
11. Excess General Fund Balances
12. Average Daily Membership
9-10-11
13. Adjusted General Fund Cost
13 ÷ 12
14. "Cost" Per ADM
Formula in §13-13-45
15. Preliminary AG Mills
+ or − the Constant provided for in §13-13-37.2
16. Final AG Mills
Formula in §10-12-31
17. Final Non-AG Mills
7 x 16
8 x 17
18. Formula AG Taxes
19. Formula Non AG Taxes
18 + 19
20. Formula Taxes (Local Effort)
Phase 3
21. Personal Property Tax Replacement
22. Tuition Receipts
23. State Apportionment
24. County Apportionment
9-10-11-20-21-22-23-24
25. State Aid To Education

The rectangles represent numbers, either inputs to the formula or the result of calculations. The ovals represent mathematical operations performed as directed by the Aid to Education Formula.

SOUTH DAKOTA ECONOMETRIC MODEL
(Business Research Bureau - University of South Dakota)

TABLE 4. SELECTED ECONOMIC INDICATORS (S.D. AND U.S.)

DESCRIPTION	1986Q2	1986Q3	1986Q4	1987Q1	1987Q2	1987Q3	1987Q4	1988Q1	1988Q2	1988Q3	1988Q4	1989Q1	ANNUAL DATA: 1986	1987	1988
	ACTUAL				FORECAST										
SOUTH DAKOTA INDICATORS															
PERSONAL INCOME (MILLIONS)	$8,953	$8,118	$8,417	$8,496	$8,602	$8,795	$8,980	$9,116	$9,251	$9,391	$9,606	$9,792	$8,381	$8,730	$9,341
(% CHANGE)	11.4	-9.3	3.7	0.9	2.2	1.3	2.1	1.5	1.5	1.5	2.3	1.5	6.0	4.3	6.9
PERSONAL INCOME (1982 $'S)	$7,081	$7,090	$7,306	$7,268	$7,339	$7,460	$7,440	$7,478	$7,509	$7,519	$7,583	$7,619	$7,338	$7,352	$7,522
(% CHANGE)	11.4	-10.0	3.1	-0.5	1.0	0.3	4.3	2.1	1.6	0.5	3.4	1.9	3.7	0.2	2.3
NONFARM PERS. INC. (MILLIONS)	$7,495	$7,504	$7,582	$7,664	$7,820	$7,919	$8,095	$8,226	$8,358	$8,478	$8,668	$8,800	$7,522	$7,875	$8,432
(% CHANGE)	0.9	1.2	.0	1.1	2.0	1.3	2.2	1.6	1.6	1.4	2.2	1.5	3.4	4.7	7.1
NONFARM PERS. INC. (1982 $'S)	$6,598	$6,624	$6,582	$6,556	$6,610	$6,627	$6,707	$6,748	$6,784	$6,788	$6,842	$6,875	$6,585	$6,625	$6,790
(% CHANGE)	0.9	0.4	-0.6	-0.4	0.8	0.3	1.2	0.6	0.5	0.1	0.8	0.5	1.1	0.6	2.5
WAGES & SALARIES (MILLIONS)	$3,729	$3,803	$3,836	$3,898	$3,991	$4,016	$4,112	$4,155	$4,203	$4,233	$4,334	$4,382	$3,766	$4,004	$4,231
(% CHANGE)	0.9	2.0	0.9	1.6	2.4	0.6	2.4	1.1	1.1	0.7	2.4	1.1	3.5	6.3	5.7
WAGES AND SALARIES (1982 $'S)	$3,283	$3,321	$3,330	$3,334	$3,374	$3,361	$3,407	$3,409	$3,411	$3,389	$3,421	$3,424	$3,297	$3,369	$3,488
(% CHANGE)	0.9	1.2	0.3	0.1	1.2	-0.4	1.4	0.1	0.1	-0.7	0.9	0.1	1.3	2.2	1.1
FARM INCOME (MILLIONS)	$1,458	$534	$605	$832	$862	$876	$884	$890	$894	$915	$939	$952	$859	$864	$909
(% CHANGE)	133.0	-63.4	56.4	-0.4	3.6	1.6	1.0	0.6	0.4	2.2	2.9	1.4	36.8	0.5	5.2
FARM INCOME (1982 $'S)	$1,283	$466	$525	$712	$729	$733	$733	$730	$725	$731	$741	$744	$753	$727	$732
(% CHANGE)	139.0	-63.7	55.4	-1.8	2.4	0.6	.0	-0.4	-0.6	0.8	1.4	0.3	33.8	-3.5	0.7
TOTAL EMPLOYMENT (THOUSANDS)	336.2	342.3	329.0	319.0	345.5	349.7	329.5	314.8	342.4	350.4	330.8	316.5	329.0	335.9	336.0
(% CHANGE YEAR-OVER-YEAR)	1.4	1.3	2.1	3.4	2.6	2.1	0.2	-1.3	-0.2	0.2	0.4	0.5	1.2	2.1	.0
NONMG. EMPLOYMENT (THOUSANDS)	253.7	254.2	255.5	247.4	256.5	258.4	256.1	248.8	259.7	260.9	258.5	251.3	251.7	254.6	257.0
(% CHANGE YEAR-OVER-YEAR)	0.3	0.6	2.4	1.6	1.1	1.7	0.2	0.6	1.0	0.9	0.9	1.0	0.9	1.2	0.9
MANUFACTURING EMPLOYMENT	27.8	28.2	29.1	28.6	27.9	30.2	30.6	30.1	31.0	31.6	31.8	31.1	27.4	29.3	31.1
(% CHANGE YEAR-OVER-YEAR)	88.5	96.0	100.2	100.7	86.8	87.5	95.2	96.5	96.0	94.2	95.2	93.0	-6.2	7.0	6.2
AUTO REGISTRATIONS	5247	5035	3667	4548	4710	4271	4271	4316	4755	4316	4316	4516	4349	4450	4426
(% CHANGE YEAR-OVER-YEAR)	25.8	21.3	1.2	32.0	-10.2	-15.2	16.5	-5.1	0.9	1.0	1.0	0.0	7.5	2.3	-0.6
HOUSING STARTS	701	531	336	298	817	713	654	382	853	730	658	371	445	620	657
(% CHANGE YEAR-OVER-YEAR)	13.2	-20.0	24.9	34.9	16.6	34.2	94.7	28.3	5.1	2.5	0.6	-3.1	-14.3	39.4	5.9
RETAIL SALES	$2,710	$2,770	$2,870	$2,416	$2,636	$2,649	$2,750	$2,332	$2,534	$2,520	$2,589	$2,139	$2,655	$2,613	$2,700
(% CHANGE YEAR-OVER-YEAR)	0.4	3.0	1.1	6.3	-2.8	-4.4	-4.2	-3.5	-3.9	-4.9	-5.8	-8.3	0.3	-1.6	3.3
UNEMPLOYMENT RATE (%)	4.2	3.7	4.8	4.9	3.7	3.5	4.1	5.2	4.2	3.9	4.4	5.5	4.7	4.0	4.2
U.S. INDICATORS															
REAL GNP (1982 $'S)	$3,705	$3,718	$3,732	$3,772	$3,794	$3,818	$3,845	$3,875	$3,902	$3,929	$3,955	$3,977	$3,717	$3,807	$3,915
(% CHANGE)	0.6	1.4	1.5	4.4	2.3	2.5	2.8	3.1	2.8	2.8	2.6	2.2	2.9	2.5	2.8
GNP DEFLATOR (1982 = 100)	113.7	114.7	114.9	116.1	117.2	118.3	119.4	120.6	121.9	123.2	124.5	125.8	114.1	117.8	122.6
(% CHANGE)	0.7	3.5	0.7	4.2	3.8	3.8	3.7	4.0	4.3	4.3	4.2	4.2	2.6	3.2	4.1
PERS. CONS. DEF. (1982 = 100)	113.6	114.5	115.2	116.9	118.3	119.5	120.7	121.9	123.2	124.9	126.7	128.0	114.2	118.9	124.2
(% CHANGE)	0.0	3.2	2.4	5.9	4.8	4.1	4.0	4.0	4.3	5.5	5.8	4.1	2.2	4.0	4.5
CONS. PRICE INDEX (1967 = 100)	326.5	328.9	330.8	335.0	338.9	342.4	346.0	349.8	353.8	357.9	362.1	366.0	328.4	340.6	355.9
(% CHANGE)	-1.0	2.9	2.3	5.1	4.7	4.1	4.2	4.4	4.6	4.6	4.7	4.3	1.9	3.7	4.5
UNEMPLOYMENT RATE (%)	7.2	6.9	7.0	6.7	6.1	6.0	6.0	6.0	6.0	6.0	6.1	6.1	7.0	6.2	6.0
TREASURY BILL RATE (91 DAY)	6.1	5.5	5.3	5.5	5.7	6.0	6.1	6.3	6.4	6.5	6.6	6.6	6.0	5.8	6.5

FORECAST DATE: October 1987

TAXABLE SALES
Counties and Selected Cities in South Dakota
Jan.-June 1986 and 1987
(In $000's)

REGION I

	Jan.-June 1986	Jan.-June 1987	% Change		Jan.-June 1986	Jan.-June 1987	% Change		Jan.-June 1986	Jan.-June 1987	% Change
Brookings	51,460	55,270	7.4	Gary	546	560	2.6	Kingsbury	9,510	10,072	5.9
Brookings	46,998	50,643	7.8	Toronto	895	760	-15.1	Arlington	2,683	2,816	5.0
Elkton	981	1,017	3.7	Grant	20,504	20,050	-2.2	De Smet	4,145	4,648	12.1
Volga	1,636	1,800	10.0	Big Stone C.	1,692	1,454	-14.1	Lake Preston	1,363	1,208	-11.4
Clark	5,149	4,713	-8.5	Milbank	17,854	17,487	-2.1	Lake	21,516	22,287	3.6
Clark	4,035	3,597	-10.9	Hamlin	5,583	6,080	8.9	Madison	19,969	20,678	3.6
Codington	73,326	79,826	8.9	Bryant	1,232	1,357	10.1	Miner	4,129	4,331	4.9
Watertown	71,001	77,385	9.0	Castlewood	560	594	6.1	Howard	3,216	3,372	4.9
Deuel	6,991	7,362	5.3	Estelline	1,479	1,492	0.9	Moody	13,433	13,242	-1.4
Clear Lake	4,977	5,374	8.0	Hayti	1,183	1,118	-5.5	Colman	8,176	8,020	-1.9
								Flandreau	4,761	4,706	-1.2
								TOTAL	211,602	223,233	5.5

REGION II

	Jan.-June 1986	Jan.-June 1987	% Change		Jan.-June 1986	Jan.-June 1987	% Change		Jan.-June 1986	Jan.-June 1987	% Change
Clay	21,369	23,121	8.2	Minnehaha	449,476	489,681	8.9	Centerville	1,538	1,487	-3.3
Vermillion	18,934	20,475	8.1	Baltic	953	1,130	18.6	Marion	3,891	4,275	9.9
Lincoln	15,564	18,233	17.1	Brandon	3,001	3,627	20.9	Parker	1,826	1,862	2.0
Canton	6,763	7,182	6.2	Colton	1,129	1,279	13.3	Union	13,519	14,600	8.0
Lennox	3,269	3,446	5.4	Dell Rapids	4,500	4,817	7.0	Alcester	3,546	4,086	15.2
McCook	7,703	7,907	2.6	Garretson	2,181	2,385	9.4	Beresford	4,905	4,843	-0.9
Bridgewater	1,113	1,129	1.4	Hartford	1,161	1,278	10.1	Elk Point	2,722	2,936	7.9
Canistota	878	860	-2.1	Sioux Falls	422,034	460,508	9.1				
Salem	4,627	4,681	1.2	Turner	10,455	11,042	5.6	TOTAL	518,086	564,584	9.0

REGION V

	Jan.-June 1986	Jan.-June 1987	% Change		Jan.-June 1986	Jan.-June 1987	% Change		Jan.-June 1986	Jan.-June 1987	% Change
Buffalo	116	55	-52.6	Blunt	1,316	1,366	3.8	Stanley	5,847	7,166	22.6
Campbell	2,705	2,986	10.4	Pierre	45,624	48,409	6.1	Ft. Pierre	5,778	7,093	22.8
Herreid	1,455	1,595	9.6	Hyde	4,042	3,928	-2.8	Sully	2,607	2,704	3.7
Pollock	1,045	1,184	13.3	Highmore	3,967	3,854	-2.8	Onida	2,311	2,419	4.7
Corson	1,730	1,579	-8.7	Jones	5,118	5,176	1.1	Tripp	16,405	17,655	7.6
McIntosh	464	404	-12.9	Murdo	4,743	4,774	0.7	Winner	15,725	16,755	6.6
McLaughlin	604	589	-2.5	Lyman	5,740	6,042	5.3	Todd	4,404	4,802	7.1
Dewey	6,159	6,607	7.3	Presho	1,562	1,812	16.0	Mission	3,860	4,280	10.9
Eagle Butte	4,056	4,279	5.5	Mellette	1,459	1,453	-0.4	Walworth	18,141	18,626	2.7
Isabel	693	770	11.1	White River	1,292	1,272	-1.5	Mobridge	12,884	13,268	3.0
Timber Lake	1,042	1,157	11.0	Perkins	8,810	8,584	-2.6	Selby	3,411	3,313	-2.9
Haakon	5,288	5,875	11.1	Lemmon	6,967	6,723	-3.5	Ziebach	1,013	985	-2.8
Philip	4,786	5,393	12.7	Potter	6,880	6,985	1.5	Dupree	932	936	0.4
Hughes	47,293	50,182	6.1	Gettysburg	4,933	5,078	2.9				
				Haven	1,682	1,635	-2.8	TOTAL	143,838	151,389	5.2

REGION VI

	Jan.-June 1986	Jan.-June 1987	% Change		Jan.-June 1986	Jan.-June 1987	% Change		Jan.-June 1986	Jan.-June 1987	% Change
Bennett	5,056	5,246	3.8	Harding	1,474	1,328	-9.9	Meade	21,430	23,412	9.2
Martin	4,965	5,116	3.0	Buffalo	1,275	1,080	-15.3	Faith	2,354	2,338	0.2
Butte	17,822	17,921	0.6	Jackson	3,985	3,856	-3.2	Sturgis	15,797	16,407	3.9
Belle Fche.	13,593	14,946	10.0	Kadoka	2,999	2,813	-6.2	Pennington	299,811	326,748	9.0
Newell	2,519	2,683	6.5	Lawrence	49,274	51,418	4.4	Rapid City	269,622	302,616	12.2
Custer	11,314	12,114	7.1	Deadwood	8,056	10,671	32.5	Wall	10,012	10,496	4.8
Custer	10,623	11,263	6.0	Lead	12,342	13,081	6.0	Shannon	2,032	2,143	5.5
Fall River	12,389	13,297	7.3	Spearfish	21,527	25,725	19.5	Pine Ridge	296	324	9.5
Edgemont	2,237	2,410	7.7	Whitewood	1,013	1,475	45.6	Washabaugh	47	45	-4.3
Hot Sprgs.	9,559	10,436	9.2								
								TOTAL	424,633	457,530	7.7
								STATE TOTAL	1,723,242	1,851,644	7.5

REGION III

	Jan.-June 1986	Jan.-June 1987	% Change		Jan.-June 1986	Jan.-June 1987	% Change		Jan.-June 1986	Jan.-June 1987	% Change
Aurora	4,995	5,328	6.7	Lake Andes	2,333	2,300	-1.4	Emery	802	757	-5.6
Plankinton	3,322	3,578	7.7	Platte	6,104	6,696	9.7	Hutchinson	14,699	15,187	3.3
Bon Homme	10,317	10,718	3.9	Wagner	5,225	5,427	3.9	Freeman	5,713	5,939	4.0
Avon	1,873	2,080	11.1	Davison	59,058	63,456	7.4	Menno	2,065	2,184	5.8
Scotland	1,901	1,915	0.7	Mitchell	58,067	62,056	6.9	Parkston	4,726	4,878	3.2
Springfield	1,638	1,638	0.0	Douglas	3,077	3,208	4.2	Tripp	1,413	1,323	-6.4
Tabor	1,974	2,093	6.0	Armour	2,343	2,496	6.5	Jerauld	3,621	3,756	3.7
Tyndall	2,760	2,814	1.7	Corsica	2,046	2,035	-0.5	Wess. Sprgs.	3,174	3,373	6.3
Brule	11,818	12,105	2.4	Gregory	9,458	9,482	0.3	Sanborn	2,438	2,440	0.1
Chamberlain	9,556	9,640	0.9	Burke	2,343	2,397	2.3	Woonsocket	1,811	1,853	2.3
Kimball	1,960	2,104	7.3	Gregory	4,731	4,708	-0.5	Yankton	52,596	58,721	11.6
Charles Mix	14,640	15,556	6.3	Hanson	2,562	2,672	2.5	Yankton	50,892	56,530	11.1
Geddes	459	464	1.1	Alexandria	1,525	1,436	-5.8				
								TOTAL	191,081	204,457	7.0

REGION IV

	Jan.-June 1986	Jan.-June 1987	% Change		Jan.-June 1986	Jan.-June 1987	% Change		Jan.-June 1986	Jan.-June 1987	% Change
Beadle	52,422	54,408	3.8	Bowdle	1,250	1,375	-11.3	Leola	1,007	1,100	9.2
Huron	49,792	51,400	3.2	Hosmer	667	754	13.0	Marshall	6,813	6,900	1.3
Brown	115,398	128,575	11.4	Ipswich	3,432	3,392	-1.2	Britton	4,842	4,854	0.2
Aberdeen	107,992	120,371	11.5	Roscoe	965	1,002	3.8	Roberts	13,004	13,081	0.6
Groton	3,093	3,169	2.5	Faulk	3,849	3,935	2.2	Sisseton	7,867	7,758	-1.4
Day	10,976	11,010	0.3	Faulkton	2,664	2,791	4.8	Wilmot	1,674	1,775	6.0
Bristol	665	538	-19.1	Hand	8,290	8,475	2.2	Spink	11,918	12,575	5.5
Hayes	663	745	12.4	Miller	7,452	7,594	1.9	Doland	464	471	1.5
Webster	8,677	8,636	-0.5	McPherson	4,480	4,699	4.9	Redfield	9,922	10,410	4.9
Edmunds	6,851	6,792	-0.9	Eureka	3,247	3,303	1.7				
								TOTAL	234,002	250,450	7.0

6B

School District Size (ADM)	Reduction (Prelim Ag Mills)
2,565 and up	2.2
1,795 to 2,565	2.7
1,155 to 1,795	3.5
790 to 1,155	4.5
450 to 790	6.8
270 to 450	8.0
176 to 270	9.0
110 to 176	10.0
less than 110	8.0

This reduction feature of the new formula is a recognition that smaller more rural school districts have fewer students over which to spread their fixed costs relative to larger more urban schools.

After the conversion from "cost" per ADM to preliminary ag mills is made, a constant is added to or subtracted from every school district's preliminary ag mills. The result is called final ag mills (box 16). The purpose of the constant is to provide a mechanism to distribute the exact amount of money that has been appropriated for state aid to education. The firm "constant" means that the same number wil be added or subtracted in each school district's computation. The constant will change from year-to-year as data inputs to the for mula change and as the amount of money distributed through the new formula changes. After the constant has been added or subtracted, final non-ag mills (box 17) are determined from ag mills. This determination is according to §10-12-31, which specifies that ag mills and non-ag mills are equal from zero to eight mills. After eight mills, non-ag mills increase at twice the rate of ag mills.

Phase 2 is concluded by multiplying final ag mills time the equalized ag taxable values and multiplying final non-ag mills times the equalized non-ag values. The two products (boxes 18 and 19) are added to arrive at the required local effort or formula taxes (box 20).

Phase 3 completes the calculation of state aid to education. Phase 3 is simply a series of subtractions from total general fund expenditures. State aid to education (with qualifications to be mentioned later) is general fund expenditures (box 9) minus revenue from federal and miscellaneous sources (box 10) minus excess general fund balances (box 11) minus the formula taxes or local effort (box 20) minus personal property tax replacement (box 21) (personal property tax replacement is money each school district receives from the state to compensate the school district for the loss of the tax base that occurred when the personal property tax was repealed in the late 1970s) minus tuition receipts (box 22) minus state apportionment (box 23) (state apportionment is money earned by the Department of School and Public Lands for the support of local school districts) minus county apportionment (box 24) (Article VIII, Section 3 of the South Dakota Constitution specifies "That the proceeds of all fines collected from violations of state laws shall be paid to the county treasurer...to be distributed among and between all of the several public schools incorporated in each county...") This completes the computation of state aid with the following qualifications.

1. **Holdharmless.** Each school district is entitled to at least 90% of the aid received in the previous year (§13-13-37.1 (7)).
2. **Maximum Increase.** A school district may not receive more than 105% of the amount of aid received during the previous year (Ch 143 of the 1987 South Dakota Session Laws).
3. **Expenditure Cap.** State aid may not exceed 45% of general fund expenditures. This cap will drop to 40% on July 1, 1988. (§13-13-32.1)
4. **Small Secondary Schools.** A school district operating a secondary school having an enrollment of less than 35 pupils located within 20 miles of another public secondary school is not eligible for state aid, unless the district operates an elementary school, in which case it is eligible for 65% of the amount of state aid it would otherwise be entitled. The hold harmless does not apply to secondary schools falling below the 35 student limit.

Summary. The new formula, like its predecessor, is a series of calculations designed to provide a logical method of distributing state funds to assist local school districts. The key feature of the new formula is the curve which converts the cost per student for each school district into a mill levy, which in turn determines how much of a school district's expenditures will come from local taxes and other sources, and how much will come from state aid to education. Local effort increases (which causes state aid to decrease) as the "cost" per student or the local tax base increase.

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1. *1985-86 South Dakota Educational Statistics Digest,* compiled and published by the Department of Education and Cultural Affairs.
2. SDCL 13-13.
3. SDCL 13-13-37.1.
4. This language is taken from several sections in Chapter 13-13.

THE ECONOMICS OF LONG RUN AVERAGE COSTS IN SOUTH DAKOTA PUBLIC SCHOOLS

Dr. Michael K. Madden and Cynthia C. Stubblefield

Forward

As is often the case, the findings presented below were discovered inadvertently while investigating a separate but related issue. The issue involved an inquiry as to whether or not support for the initiated measure, Dakota Proposition II, is the result of a collective constituency of individual local property tax problems as opposed to generally high property tax levies throughout the State.

The initial hypothesis was that, if support for Dakota Proposition II originates from individual localized areas, the real problem consists of management and organizational inefficiencies within some local government jurisdictions as opposed to tax structure problems in general.

As a means of testing this hypothesis, it was reasoned that if wide variations in budgetary needs, which are financed with property taxes, exist among taxing jurisdictions it would lend credibility to the localized problem side of the argument.

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Because the majority of property tax receipts are used to finance public primary and secondary education in South Dakota, school district finance was researched in detail.

As discovered in this research effort, there are very wide variations in property tax burdens from one school district to another in terms of the amounts of these taxes required per student. What is far more interesting, however, is that much of this variation can be explained by the relative size of each respective school district. It will be shown below that large local tax commitments are associated with small school districts, a fact that is probably widely understood by education professionals. It also will be shown that some school districts have become too large for optimal efficiency, a condition which may not have been known in the profession.

The following analysis has implications for future planning in the public education system in South Dakota as well as providing a rich example of the power of basic economic principles.

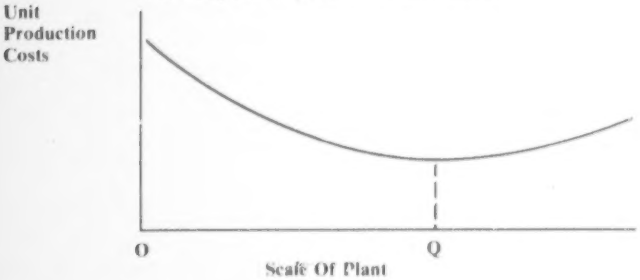
Long Run Average Costs

The formal theory of production costs in the long run has been firmly established in micro economic literature for over a half century. Much earlier, Adam Smith addressed long run cost issues on a less rigorous basis.

Current long run average total cost theory provides a rationalization of the function's shape as exhibited in **Figure 1**.

Figure 1

The Long Run Average Total Cost Curve



Average total costs are measured vertically and are impacted by the size of plant. The size of the production unit initially favorably affects production costs through the concept of economies of scale. Numerous reasons have been advanced which explain the negative slope from the graph's origin to the point Q on the above figure. The opportunity for increased specialization of both labor and capital inputs is one example. Technological factors also play a part in explaining why lower production costs are associated with larger scale production units.

When plant scale exceeds the point Q, diseconomies of scale are said to exist. Generally, reasons which are advanced to explain diseconomies of scale are more tentative than those used to explain economies of scale. Usually, such issues as the increased difficulty of achieving managerial efficiency because of communication complexities, and other bureaucratic factors have been mentioned in the literature.

Empirical work covering a wide variety of business examples has been developed during the last several decades. Generally, it can be said that empirical investigations verify that economies of scale have been found to exist over a wide variety of industries using several estimation techniques. Results are mixed, however, in statistically documenting diseconomies of scale. In other words, it is much easier to identify the declining portion of the long run unit cost curve than the portion existing to the right of Q, which has led many researchers to suggest that the curve is really "L" shaped instead of "U" shaped.

That diseconomies of scale are not often observed empirically is sometimes explained by the real possibility that competitive pressures preclude the operation of production facilities, which are too large from the standpoint of cost efficiency. Rather than build a plant that is too large, firms will instead opt to build another plant as a means of increasing output.

Economies Of Scale In Public Education

Using this background, it will be shown in this section that the issue of economies, as well as diseconomies of scale, can be examined within school districts in South Dakota. Production in this application involves a service which consists of annual units of primary and secondary education.

The observations in this investigation consist of a sample of public school districts within South Dakota. Districts, which are heavily impacted by federal funding, such as those involved with military and Indian Reservation patrons, were excluded from the population. Also, because the distribution of school enrollment size within the state is heavily weighted toward small districts, a random sampling process was utilized so as to prevent an undue statistical influence by these districts. The above procedures resulted in a sample of 115 school districts from a total of 191 state school districts.

Data for the following statistical analysis was extracted from the document, ***Educational Statistics Digest*** for the 1985-86 school year and is published by the South Dakota Department of Education and Cultural Affairs.

Average education costs were estimated for each school district within the sample. Revenue by budgeted source is used as a proxy for cost data for a number of reasons. First, in view of anticipated policy implications which will follow, it is helpful to compare the proportion of revenue budgeted by way of property taxes.

Also, costs incurred by school districts for a given year, from the standpoint of those paying for school expenses, is logically related to revenue components.

Two calculated quotients are central to this study. Total budgeted revenue divided by student enrollment provides an estimate of average education cost per student for each school district in the sample. A statistical measure, average daily membership, is used as a measure of student enrollment.

A second quotient is computed by dividing total property tax revenue by student enrollment. This quotient derives the amount of local property tax revenue required per student. These resultant average cost estimates display a significant amount of variation among districts within the sample.

Much variation, however, can be explained by the size of the school district. As a statistical means of smoothing various unique cost factors for individual districts, a three school moving average of these quotients is calculated. Specifically, enrollment and revenue is averaged among the three smallest school districts, then sequentially moving one observation at a time until the largest district is reached. This arithmetic operation produces a new cross section series, wherein much of the unique variation in costs of individual districts is "washed" out of the original data leaving much of any remaining variation accounted for by relative school district size.

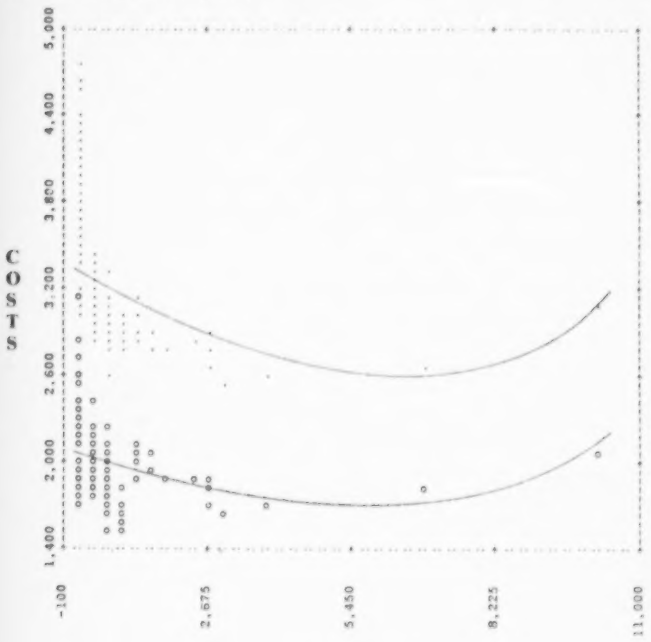
Plotting these moving averages of required total revenue and required property tax revenue per student graphically produces a very visible image of a "U" shaped average cost curve when expressed as a function of student enrollment.

The essential observation from this statistical data is that

both economies and diseconomies of scale exist in South Dakota public schools.

Figure 2

Required average total revenue (dots) and property tax revenue (circles) per student. 1985-86 school year.



There are probably a host of factors which would serve to explain the existence of high unit costs in the smaller districts. State and federal minimum standards probably result in an under utilization of labor and capital resources which must be viewed as fixed costs by these districts. Small enrollment is, of course, related to small class size which from other perspectives would be viewed positively, but not from the standpoint of cost management.

It is also observed that school districts can become too large if one wishes to minimize revenue needs per student. For example, the average total cost per student among the largest three districts (Sioux Falls, Rapid City and Aberdeen) is higher than all but one moving average data point down to an average enrollment of 663 students.

A close examination of the printed data indicates that most of the available economies of scale can be achieved with a district consisting of about 600 students. Diseconomies are apparently first very moderately experienced with districts averaging about 6,700 students with substantially more diseconomies existing at an average size of 10,000 students. In other words, the cost analysis shows a relatively flat portion of the long run average total cost curve for points between 600 and 6,700 students. The reader should be reminded that these interpretations should be tempered by the fact that very few observations with large enrollments are available in South Dakota.

It is possible that diseconomies of scale exist in large school systems in South Dakota for many of the same reasons that have been mentioned in economic literature. Effective and efficient management is likely to be more difficult in large districts.

Decision making is perhaps less centralized, and therefore, problems arise in the prioritization of program resources. It is also possible that elected officials understandably have a more difficult job of grasping the administrative complexity associated with large districts.

The problem of diseconomies of scale in the education system is probably more acute than what is found in the private business sector. While competitive pressures serve to discourage a scale of output associated with diseconomies of scale in the private sector, no similar phenomena exists for public education. This factor accents the importance of policy implications which can be drawn from the above analysis.

Policy Implications

Perhaps the most important policy implications center on the issue of school district consolidation. If the above statistical results are valid, it would appear that consolidation alternatives are capable of producing dramatically different fiscal impacts depending upon which district a proposed dissolved district ultimately joins. That is if, because of geographic location, District A could join either District B, a relatively small district, or alternatively, District C, one of the state's largest districts, it is likely that each of these choices will produce different fiscal results. If A should consolidate with C, costs are likely to go down for residents of District A, but average costs will increase for the large District C. Taxpayers in District C would logically resist such a consolidation.

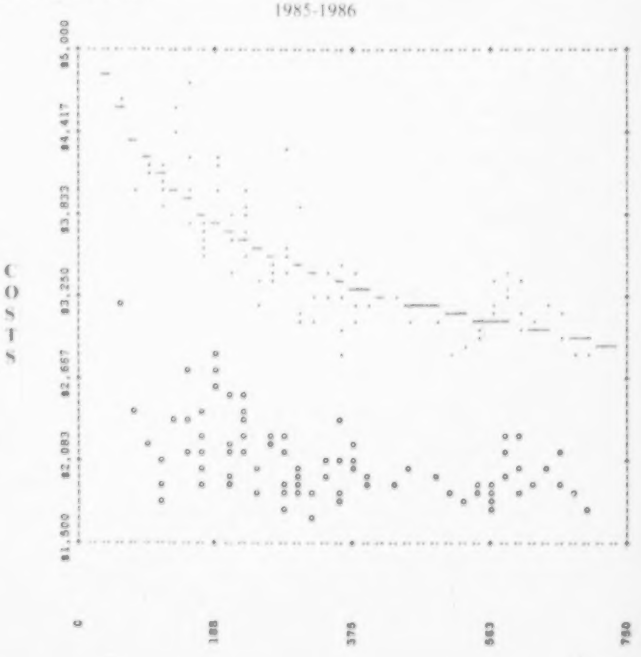
On the other hand, if A consolidates with B, which may have an opportunity to experience economies of scale as a result, residents and other providers of funds of both districts will have the opportunity to lower unit costs of education.

Figure 3, below, illustrates the savings that may accrue to small districts which elect to grow through consolidation of neighboring districts for total enrollments of less than 750 students. As in **Figure 2**, the dots represent observed average total revenue needs per student in conjunction with enrollment size. The circles represent local property tax needs per student. There is an obvious similarity in the pattern of both data series.

FIGURE 3

Total budgetary needs and property tax needs per student. Schools with less than 750 students.

1985-1986



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SOUTH DAKOTA INCOME AND EMPLOYMENT

TOTAL PERSONAL INCOME
United States, Plains Region and States
First Quarter 1986 - First Quarter 1987
(Millions of Dollars, Seasonally Adjusted at Annual Rates)

	1986				1987	% Change
	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	1st Qtr.	1st Qtr. 1986 1st Qtr. 1987
United States	3,430,620	3,485,751	3,498,709	3,529,744	3,589,692	4.6
Plains States	237,305	249,749	241,005	244,786	251,360	5.9
Iowa	36,796	39,841	37,272	36,823	40,394	9.8
Kansas	34,485	35,761	35,182	36,449	36,232	5.1
Minnesota	60,704	63,158	61,960	62,528	64,027	5.5
Missouri	68,368	69,328	69,444	69,893	70,980	3.8
Nebraska	21,248	23,824	21,253	21,637	22,611	6.4
North Dakota	7,667	8,883	7,776	9,039	8,620	12.4
South Dakota	8,036	8,953	8,118	8,417	8,496	5.7

Note: Detail may not add to totals because of rounding.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

SOUTH DAKOTA NONAGRICULTURAL WAGE AND SALARY EMPLOYMENT
June 1986 and June 1987
(In Thousands)

				Average Weekly Hours		Average Hourly Earnings	
	June 1986	June 1987	% Change	June 1986	June 1987	June 1986	June 1987
Total Employment	259.1	260.3	0.5				
Mining	2.7	2.6	-3.7				
Construction	10.9	11.0	0.9				
Manufacturing	28.3	28.0	-1.1	41.6	41.3	$7.73	$7.85
Durable Goods	15.4	16.2	5.2	41.9	43.1	$7.29	$7.83
Fabricated Metals & Mach.	9.2	9.7	5.4				
Nondurable Goods	12.9	11.8	-8.5	41.3	38.7	$8.30	$7.88
Food & Kindred Products	7.8	6.3	-19.2				
Paper, Printing & Publishing	2.6	2.9	11.5				
Transportation & Pub. Utilities	12.2	12.3	0.8				
Transportation	7.2	7.3	1.4				
Communication	2.6	2.8	7.7				
Electric/Gas/Sanitary Services	2.3	2.2	-4.3				
Wholesale & Retail Trade	67.6	68.5	1.3				
Wholesale Trade	16.6	16.4	-1.2				
Durable Goods	7.4	7.2	-2.7				
Nondurable Goods	9.2	9.2	0.0				
Retail Trade	51.0	52.1	2.2				
Finance, Insurance & Real Estate	14.4	14.5	0.7				
Services	60.9	61.5	1.0				
Hotels, Amuse., Pers. & Business	17.4	17.4	0.0				
Medical & Health	23.1	23.7	2.6				
Educational, Membership & Social	3.9	3.9	0.0				
Government	62.0	61.6	-0.6				
Federal	10.9	11.4	4.6				
State	16.2	16.5	1.9				
State Education	5.7	5.6	-1.8				
Local	34.8	33.8	-2.9				
Local Education	18.4	18.5	0.5				

Source: South Dakota Department of Labor

For further information contact Nancy Nelson

SOUTH DAKOTA AGRICULTURAL INDICATORS

CROP PRODUCTION SUMMARY
SD
AUGUST 1, 1987
(000 's Bushels)

Crop	Production 1986	1987
Wheat, All	108,660	111,350
Winter	57,600	56,000
Durum	1,560	3,150
Other Spring	49,500	52,200
Corn, All	--	--
Corn, Grain	233,700	226,800
Barley	35,910	32,800
Oats	46,200	56,400
Soybeans	41,230	42,880
Sorghum, All	--	--
Sorghum, Grain	14,030	12,880
Hay, All 1/	9,330	7,330
Alfalfa 1/	6,250	5,170
Other 1/	3,080	2,160

Source: South Dakota Crop & Livestock Reporter

PRICES RECEIVED BY FARMERS FOR COMMODITIES SOLD--SOUTH DAKOTA
June 1986 and 1987

Commodity and Unit		Base Period Price 1910-1914 Average	June 1986	June 1987	June 1987 Price as % of Base	June 1987 Price Above or Below June 1986
Wheat	Bu.	0.85	2.81	2.51	295	-10.7
Corn	Bu.	0.51	2.11	1.61	316	-23.7
Oats	Bu.	0.35	1.03	1.51	431	46.6
Barley	Bu.	0.59	1.50	1.59	269	6.0
Flaxseed	Bu.	1.68	5.10	3.49	208	-31.6
Milk, Whsl.	Cwt.	1.82	1/	1/	-	-
Eggs	Doz.	0.196	1/	1/	-	-
Cattle	Cwt.	5.24	48.30	57.60	1099	19.3
Calves	Cwt.	6.08	59.60	77.90	1281	30.7
Hogs	Cwt.	7.07	51.70	59.00	835	14.1
Sheep	Cwt.	4.24	22.50	26.80	632	19.1
Lambs	Cwt.	5.66	74.00	83.30	1472	12.6
Wool	Lb.	0.178	0.66	0.91	511	37.9

1/ Season average price only.

Source: South Dakota Crop & Livestock Reporter.

SOUTH DAKOTA LOCAL CONDITIONS INDICATORS

(% Change Like Period Previous Yr.)

City	Total	Taxable Sales/1 Retail	Services	Telephone Services/2	Housing Starts/3	Postal Indicator/4	Employment*/2
Aberdeen	11.5	12.6	9.8	3.2	58.1	17.0	3.3
Belle Fourche	10.0	16.5	-8.5	1.1	-100.0		7.7
Brookings	7.8	5.1	11.7		1533.6	-5.4	0.0
Canton	6.2	3.8	-7.0	-0.1			6.3
Chamberlain	0.9	3.9	8.3	-1.6	-100.0		-2.9
Deadwood	32.5	39.5	-7.0	1.0			6.2
De Smet	12.1	10.8	-1.3	1.6			0.7
Elk Point	7.9	4.8	13.0	0.5			2.6
Hot Springs	9.2	9.7	6.5		100.0		1.5
Huron	3.2	8.3	-2.5	1.5	-50.7	7.6	0.6
Lead	6.0	25.8	51.5	-0.6			6.2
Madison	3.6	7.5	12.3	0.5	100.0		2.9
Milbank	-2.1	-6.5	12.2	1.2	-100.0		1.0
Mitchell	6.9	7.8	4.4	1.4	154.2	-0.6	3.6
Mobridge	3.0	3.0	-1.6	0.3			2.8
Pierre	6.1	11.6	7.5	1.5	208.9	-13.8	1.2
Rapid City	12.2	12.1	11.5	3.9	-45.5	-8.8	1.9
Sioux Falls	9.1	9.2	10.8	1.6	-10.7	-19.4	2.2
Spearfish	19.5	24.8	9.5		-21.9		6.2
Sturgis	3.9	5.9	-7.9	1.9			2.3
Vermillion	8.1	8.2	6.9	2.3	-100.0		-1.3
Watertown	9.0	9.4	19.7	1.3	27.2	5.0	1.9
Winner	6.6	6.0	4.7	0.2			2.2
Yankton	11.1	7.2	1.5	0.3	96.8	-7.9	2.7

*Based on County Data

1/Percentage change for January-June 1986 and 1987.

2/Percentage change for June 1986 and 1987. Telephone data are for the number of access lines in service.

3/Percentage change for January-June of 1986 and 1987. Data reported for housing represent the value of housing starts.

4/Percentage change for the second quarter of 1986 and 1987. Included in postal indicators are: postage stock sales, postage meters for customers, meter imprint postage (3rd class regular), and second class postage.

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A least squares regression equation was applied to the average total revenue needs for the sample of schools with enrollments of less than 750 students. The form of the equation appears as:

Average Total Revenue Needs = Y = a + b [Ln (enrollment)]

Least squares yielded the following solution to this equation with a coefficient of determination equal to .69.

$$Y = 7{,}199.9 - 652.2\ [\text{Ln (enrollment)}]$$

Points plotted from this equation are represented by the dashed lines in FIGURE 3. As an application of this equation, suppose a school district with 180 enrollment joins another of similar size resulting in a new enrollment of 360. Solving the equation for enrollments of 180 and 360 shows that average student costs are estimated to be reduced by nearly $500. Unit

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savings are, of course, even greater if even smaller school districts are assumed to be consolidated. Since property taxes serve somewhat as a residual in school budget preparations, most of this savings could presumably be reflected in property tax relief.

State agencies also should have an interest in the selection of available alternatives in public school consolidation. In terms of allocating funds, such as state aid to education, optimal use of these limited resources require that consolidations which increase average budget needs on a per student basis should be resisted.

Aside from policies which discourage large school districts that are experiencing diseconomics of scale from becoming even larger through consolidation, there is probably little that can be done to rectify the problem which presently exists. In view of past difficulties in achieving consolidation of small school districts, one can only imagine the difficulties which would be incurred in subdividing districts which are too large into smaller units.

The following table contains average total revenue needs and property tax needs by school district category. Categories are determined by size of enrollment. An average school district can expect changes in these revenue needs on a per student basis according to differences in the dollar amounts after, as opposed to before, consolidation.

Table 1

District Size	Total Revenue Needed Per Student	Property Tax Revenue Needed Per Student
Less than 100	$4,170	$2,546
101 - 200	3,921	2,204
201 - 300	3,655	2,235
301 - 400	3,374	2,105
401 - 500	3,294	1,663
501 - 600	3,132	1,907
601 - 1000	2,955	1,677
1001 - 2000	3,186	1,601
2001 - 4000	2,869	1,421
Above 4000	3,070	2,054

Summary

The preceding analysis represents an example of the utility of economic concepts in assisting in the formulation of policies pertinent to public education finance. The classic "U" shaped long run average total cost curve appears to be an accurate description of education costs as a function of school enrollment. Efficiencies in public education can be obtained, as is the case in the private sector, by acquiring knowledge about economies and diseconomies of scale and implementing policies which encourage optimal size school districts. The statistical data developed in this research effort suggests that school districts in the range of 600 to about 4,000 students are optimal in terms of minimizing education costs.

Further Research

The groundwork has been established herein for a detailed investigation of the optimal allocation of state resources for education. The required data is already available which would enable one to estimate the impact given amounts of state aid would have on pubic school financing if school districts were of a more optimal student enrollment. Evidence gathered at this point indicates that some school districts must become larger while others need to become smaller.

CONSUMER PRICE INDEX
United States
Jan.-June 1987
(1967=100)

Item	Jan.	Feb.	March	April	May	June	% Change Jan.-June
All items	335.1	334.4	335.9	337.7	338.7	340.1	2.1
Food & beverages	320.5	321.6	321.6	322.5	324.0	325.4	1.5
Food	328.9	330.1	330.0	331.0	332.5	334.1	1.6
Alcoholic beverages	242.5	243.2	243.6	244.3	245.0	245.9	1.4
Housing	363.9	365.1	366.4	367.7	368.9	371.5	2.0
Shelter	412.5	414.0	415.9	418.0	419.2	420.2	1.9
Renters' costs	125.3	125.8	126.4	127.1	127.3	127.9	2.1
Homeowners' costs	122.0	122.5	123.0	123.6	124.0	124.2	1.8
Fuel & other utilities	373.7	374.8	374.9	374.2	377.5	387.6	3.7
Fuel	443.7	445.1	444.6	442.0	448.7	470.8	6.1
Fuel oil, coal & otlr. gas	487.9	503.2	500.6	500.5	497.7	498.6	2.2
Gas (piped) & electricity	428.8	428.9	428.7	425.9	435.5	456.8	6.5
Other util. & Pub. Services	254.9	255.6	256.2	257.0	257.2	256.4	0.6
Household furn. & operation	253.1	253.5	254.5	255.2	254.9	254.9	0.7
Apparel & upkeep	207.1	208.4	215.2	216.7	214.0	214.5	3.6
Transportation	308.5	310.0	310.6	313.3	314.6	316.7	2.7
Private transportation	299.8	301.3	301.9	304.8	306.3	308.6	2.9
Public transportation	438.9	439.8	441.4	440.8	439.6	438.1	-0.2
Medical care	449.6	452.4	455.0	457.3	458.9	461.3	2.6
Entertainment	278.3	278.7	279.8	281.3	282.0	282.3	1.4
Other goods and services	358.1	359.7	360.3	361.1	362.0	362.9	1.3

*Consumer Price Index for all Urban Consumers

Source: Bureau of Labor Statistics, U.S. Dept. of Labor